

# FAIRX FOCIX FAAFX

2019 ANNUAL REPORT

**FAIRHOLME**

*Ignore the crowd.*

Beginning March 29, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of each Fund's annual and semi-annual shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary, such as a broker-dealer or bank. Instead, the reports will be made available on the Fund's website ([www.fairholmefunds.com](http://www.fairholmefunds.com)), and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from a Fund or your financial intermediary electronically at any time by contacting your financial intermediary (such as a broker-dealer or bank) or, if you are a direct investor, by calling the Fund at (866) 202-2263.

You may elect to receive all future reports in paper form free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports; if you invest directly with a Fund, you can call the Fund at (866) 202-2263. Your election to receive reports in paper form will apply to all funds held in your account with your financial intermediary or, if you invest directly, to all funds held with Fairholme Funds, Inc.



**FAIRHOLME**

*Ignore the crowd.*

**PORTFOLIO MANAGER'S REPORT  
FOR EACH SERIES OF FAIRHOLME FUNDS, INC.**

**January 2020**

Mutual fund investing involves risks, including possible loss of principal. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Fund ("Fund") will fluctuate so that the value of an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted performance information quoted below. Performance figures reflect the deduction of expenses and assume reinvestment of dividends and capital gains but do not reflect a 2.00% redemption fee imposed by the Fund on shares redeemed or exchanged within 60 calendar days of their purchase. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at (866) 202-2263. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. The S&P 500 Index (the "S&P 500") is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization and the performance of the S&P 500 assumes the reinvestment of all dividends and distributions. The S&P 500 is used for comparative purposes only, and is not meant to be indicative of the Fund's performance, asset composition, or volatility. The Fund's performance may differ markedly from the performance of the S&P 500 in either up or down market trends. Because an index cannot be invested in directly, the index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratio for the Fund reflected in the current prospectus dated March 29, 2019, is 1.00%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Annual Report.

Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

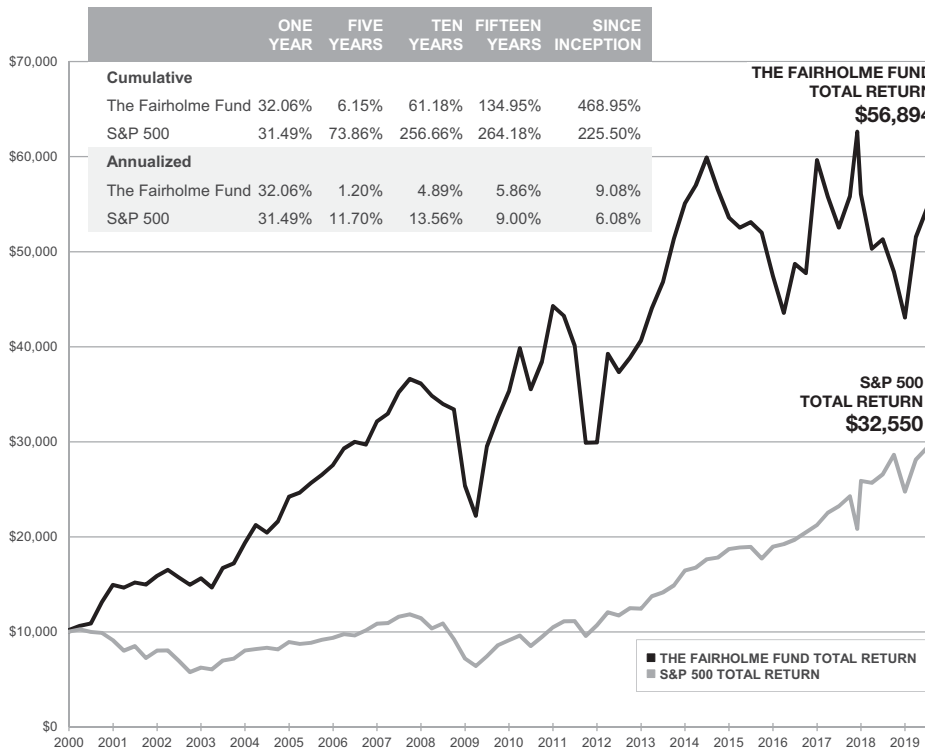
The Portfolio Manager's Report is not part of The Fairholme Funds, Inc. Annual Report due to forward-looking statements that, by their nature, cannot be attested to, as required by regulation. The Portfolio Manager's Report is based on calendar-year performance. A more formal Management Discussion and Analysis is included in the Annual Report. Opinions of the Portfolio Manager are intended as such, and not as statements of fact requiring attestation.

January 28, 2020

Dear Fellow Shareholders:

The Fairholme Fund doubled the performance of the S&P 500 Index in its first twenty years.

**The Fairholme Fund**



TOP ISSUERS (% OF NET ASSETS)	
The St. Joe Co.	40.7%
Cash and Cash Equivalents*	38.5%
Federal Home Loan Mortgage Corp.	9.8%
Federal National Mortgage Association	9.7%
Imperial Metals Corp.	1.0%
Sears Holdings Corp.	0.1%
Vista Outdoor, Inc.	0.1%

The chart on the left covers the period from inception of The Fairholme Fund (December 29, 1999) through December 31, 2019.

\*Includes cash, U.S. Treasury Bills, money market funds, and various commercial paper issuers.

The Fairholme Fund increased 32.06% versus a 31.49% increase for the S&P 500 Index in 2019. Outstanding performance was achieved by focusing on a few long-term investments. The Fund held 38.5% of assets in cash and cash equivalents at year-end to hedge against market uncertainties. The preceding graph and performance table compare The Fairholme Fund's unaudited performance (after expenses) with that of the S&P 500 Index, with dividends and distributions reinvested, for various periods ending December 31, 2019. The value of a \$10,000 investment in The Fairholme Fund at its inception was worth \$56,894 (assumes reinvestment of distributions into additional Fund shares) compared to \$32,550 for the S&P 500 at December 31, 2019. Of the \$56,894, the value of reinvested distributions was \$37,064.

St. Joe common stock accounted for 1,390 basis points of 2019 performance. Record numbers of Americans are working and retiring in Florida, which now has more residents than New York. The company, with partners, has ignited residential and hospitality operations to meet accelerating demand. Over nine hundred homesites are under contract – four times more than two years ago. Nearly nine hundred apartments are under construction or leased. Latitude Margaritaville Watersound, a 55 & better community, is on the way with a first phase of three thousand five hundred homes. St. Joe clubs and resorts welcomed thirty thousand guests last year with less than one hundred and thirty rooms. Over five hundred new rooms are in construction under Marriott and Hilton flags. Clubs by Joe exceeded twelve hundred members in its first three years. Watersound Beach Club finished its first expansion. The Camp Creek Golf Club is expanding with a 75 room boutique inn and resort amenities. St. Joe has returned \$581 million to shareholders by repurchasing over 35% of outstanding common stock. New projects should accelerate operating profits for years to come. Project videos are updated monthly at [www.joe.com](http://www.joe.com).

Fannie Mae and Freddie Mac ("Fannie & Freddie") preferred stocks accounted for 830 basis points of 2019 performance. Fannie earned \$3.9 billion insuring \$3.0 trillion of mortgages in the latest three months. Freddie earned \$1.8 billion insuring \$2.1 trillion of mortgages. Fannie and Freddie are expected to earn and retain billions of dollars each year – charging less than one-half of one percent to guarantee affordable, long-term mortgages. No other institution does it for less or better serves families who want the American dream of home ownership and financial independence. The White House and Treasury Department want Fannie and Freddie released from a perpetual conservatorship. The housing market is a major segment of the U.S. economy. Freeing Fannie and Freddie will accelerate America's growth and prosperity. In fact, the law mandates their eventual release and recent court decisions (after review of discovery documents) are starting to confirm.

Imperial Metals Corporation ("Imperial") debt and common stock accounted for 550 basis points of 2019 performance. Imperial sold seventy percent of Red Chris to Newcrest Mining, which should dramatically improve Red Chris' potential, production, and profits. Imperial is now debt free and continues to own thirty percent of a world class copper and gold resource.

Fund equity investments have tremendous potential based on underlying assets. Fund liquidity is expected to buffer market volatility and provide the necessary cash for opportunities. I and affiliated entities own 19.8% of the Fund due to a desire to eat one's own cooking and a belief that the best is yet to come for the Fund.

Respectfully submitted,



Bruce R. Berkowitz  
Chief Investment Officer

Mutual fund investing involves risks, including possible loss of principal. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Fairholme Focused Income Fund ("The Income Fund" or the "Fund") will fluctuate so that the value of an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted performance information quoted below. Performance figures reflect the deduction of expenses and assume reinvestment of dividends and capital gains. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at (866) 202-2263. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. The Bloomberg Barclays U.S. Aggregate Bond Index (the "Bloomberg Barclays Bond Index") is a broad-based flagship benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage backed securities (agency and non-agency). The Bloomberg Barclays Bond Index is used for comparative purposes only, and is not meant to be indicative of the Fund's performance, asset composition, or volatility. The Fund's performance may differ markedly from the performance of the Bloomberg Barclays Bond Index in either up or down market trends. Because an index cannot be invested in directly, the index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratio for the Fund reflected in the current prospectus dated March 29, 2019, is 1.01%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Annual Report. The expense ratio includes any acquired fund fees and expenses which are incurred indirectly by the Fund as a result of investments in securities issued by one or more investment companies, including money market funds.

Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

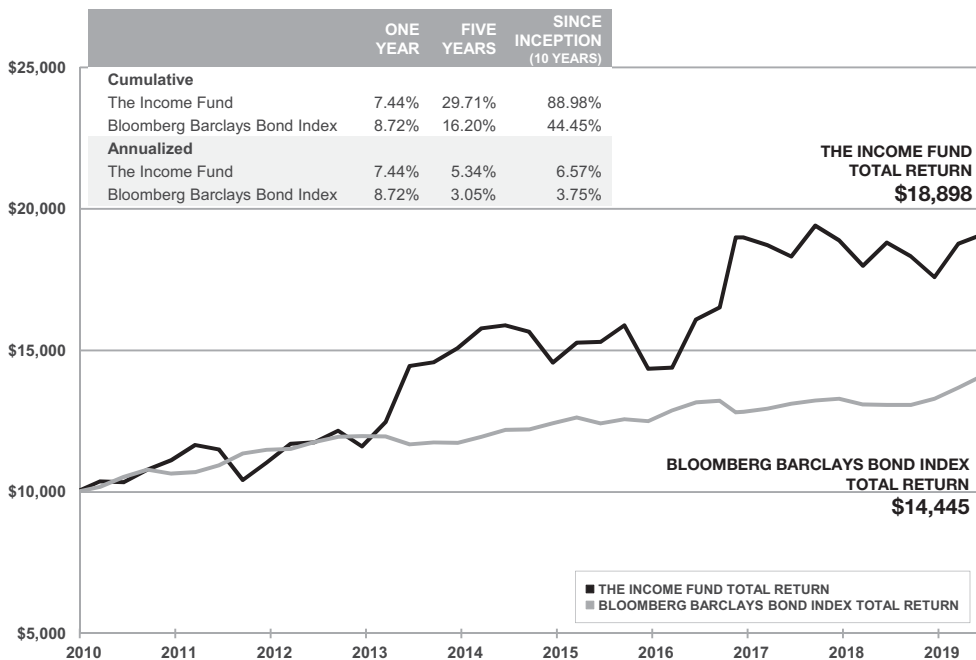
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January 28, 2020

Dear Fellow Shareholders:

The Fairholme Focused Income Fund doubled the performance of the Bloomberg Barclays Bond Index in its first ten years.

The Fairholme Focused Income Fund



TOP ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	88.5%
Federal Home Loan Mortgage Corp.	4.54%
GMAC Capital Trust I, Inc.	1.61%
Chesapeake Energy Corp.	1.33%
Bank of America Corp.	1.04%
JP Morgan Chase & Co.	1.01%
The Goldman Sachs Group, Inc.	0.90%
Wells Fargo & Co.	0.67%
Federal National Mortgage Association	0.30%
Sears Holdings Corp.	0.13%

The Income Fund's 30-Day SEC Yield at December 31, 2019, was 1.53% (unsubsidized) and 1.73% (subsidized).\*\*

The chart on the left covers the period from inception of The Income Fund (December 31, 2009) through December 31, 2019

\*Includes cash, U.S. Treasury Bills, money market funds, and various commercial paper issuers.

\*\*The 30-Day SEC Yield represents net investment income earned by The Income Fund over the 30-Day period, expressed as an annual percentage rate based on The Income Fund's share price at the end of the 30-Day period. The 30-Day unsubsidized SEC Yield does not reflect any fee waivers/reimbursements/limits in effect.

The Fairholme Focused Income Fund increased 7.44% versus an 8.72% increase for the Bloomberg Barclays Bond Index in 2019. The preceding graph and performance table compare The Income Fund's unaudited performance (after expenses) with that of the Bloomberg Barclays Bond Index, with dividends and distributions reinvested, for various periods ending December 31, 2019. The Fund held 88.5% of assets in cash and cash equivalents at year-end. The value of a \$10,000 investment in The Income Fund at its inception was worth \$18,898 (assumes reinvestment of distributions into additional Income Fund shares) compared to \$14,445 for the Bloomberg Barclays Bond Index at December 31, 2019. Of the \$18,898, the value of reinvested distributions was \$8,618.

Imperial Metals debt accounted for 520 basis points of 2019 performance. Imperial Metals sold seventy percent of Red Chris to Newcrest Mining, which should dramatically improve Red Chris' potential, production, and profits. Imperial is now debt free and continues to own thirty percent of a world class copper and gold resource. Imperial common stock has tremendous gains potential with firmer commodity prices.

Fannie Mae and Freddie Mac (Fannie & Freddie) preferred stocks accounted for 200 basis points of 2019 performance. Fannie earned \$3.9 billion insuring \$3.0 trillion of mortgages in the latest three months. Freddie earned \$1.8 billion insuring \$2.1 trillion of mortgages. Fannie and Freddie, are expected to earn and retain tens of billions of dollars each year – charging less than one-half of one percent to guarantee affordable, long-term mortgages. No other institution does it for less or better serves families who want the American dream of home ownership and financial independence. The White House and Treasury Department want Fannie and Freddie released from a perpetual conservatorship. The housing market is a major segment of the U.S. economy. Freeing Fannie and Freddie will accelerate America's growth and prosperity. In fact, the law mandates their eventual release and recent court decisions (after review of discovery documents) are starting to confirm.

Fund liquidity is expected to buffer market volatility and provide the necessary cash for new investments. I and affiliated entities own 44.5% of the Fund due to a desire to eat one's own cooking and a belief in the future performance of the Fund.

Respectfully submitted,



Bruce R. Berkowitz  
Chief Investment Officer

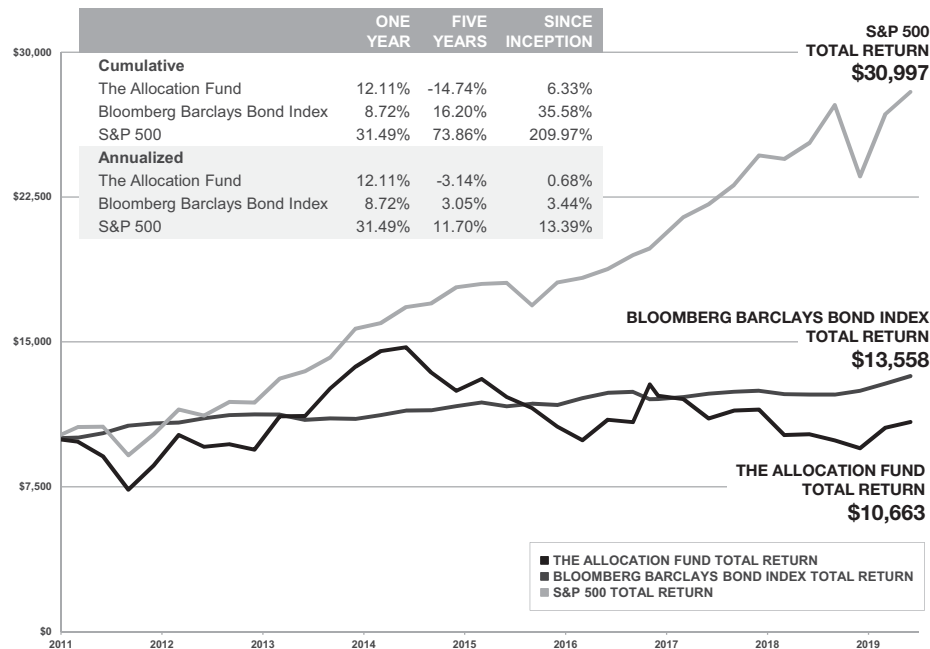
Mutual fund investing involves risks, including possible loss of principal. Past performance information quoted below does not guarantee future results. The investment return and principal value of an investment in The Allocation Fund ("The Allocation Fund" or the "Fund") will fluctuate so that the value of an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted below. Performance figures reflect the deduction of expenses and assume reinvestment of dividends and capital gains but do not reflect a 2.00% redemption fee imposed by the Fund on shares redeemed or exchanged within 60 calendar days of their purchase. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at (866) 202-2263. The Fund maintains a focused portfolio of investments in a limited number of issuers and does not seek to diversify its investments. This exposes the Fund to the risk of unanticipated industry conditions and risks particular to a single company or the securities of a single company within its portfolio. Current and future portfolio holdings are subject to change and risk. The Bloomberg Barclays U.S. Aggregate Bond Index (the "Bloomberg Barclays Bond Index") is a broad-based flagship benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage backed securities (agency and non-agency). The S&P 500 and the Bloomberg Barclays Bond Index are used for comparative purposes only, and are not meant to be indicative of the Fund's performance, asset composition, or volatility. The Fund's performance may differ markedly from the performance of the S&P 500 or the Bloomberg Barclays Bond Index in either up or down market trends. Because indices cannot be invested in directly, these index returns do not reflect a deduction for fees, expenses, or taxes. The expense ratio for the Fund reflected in the current prospectus dated March 29, 2019, is 1.01%, and may differ from the actual expenses incurred by the Fund for the period covered by the Fund's Annual Report. The expense ratio includes any acquired fund fees and expenses which are incurred indirectly by the Fund as a result of investments in securities issued by one or more investment companies, including money market funds.

Effective January 1, 2018, the Manager agreed to waive, on a voluntary basis, a portion of the management fee of the Fund to the extent necessary to limit the management fee paid to the Manager by the Fund to an annual rate of 0.80% of the Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the Fund.

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January 28, 2020

The Fairholme Allocation Fund



TOP ISSUERS (% OF NET ASSETS)	
Cash and Cash Equivalents*	64.42%
The St. Joe Co.	11.31%
Federal Home Loan Mortgage Corp.	8.68%
Federal National Mortgage Association	8.52%
Imperial Metals Corp.	5.74%
Chesapeake Energy Corp.	1.39%

The Allocation Fund's 30-Day SEC Yield at December 31, 2019, was 0.74% (unsubsidized) and 0.94% (subsidized). \*\*

The chart on the left covers the period from inception of The Allocation Fund (December 31, 2010) through December 31, 2019.

\*Includes cash, U.S. Treasury Bills, money market funds, and various commercial paper issuers.

\*\*The 30-Day SEC Yield represents net investment income earned by The Allocation Fund over the 30-Day period, expressed as an annual percentage rate based on The Allocation Fund's share price at the end of the 30-Day period. The 30-Day unsubsidized SEC Yield does not reflect any fee waivers/reimbursements/limits in effect.



**Dear Fellow Shareholders:**

The Allocation Fund increased 12.11% versus an 8.72% increase for the Bloomberg Barclays Bond Index and a 31.49% increase for the S&P 500 in 2019. The preceding graph and performance table compare The Fund's unaudited performance (after expenses) with that of the Bloomberg Barclays Bond Index and the S&P 500, with dividends and distributions reinvested, for various periods ending December 31, 2019. The Fund held 64.42% of assets in cash and cash equivalents at year-end. The value of a \$10,000 investment in The Allocation Fund at its inception was worth \$10,633 (assumes reinvestment of distributions into additional Fund shares) compared to \$13,558 and \$30,997 for the Bloomberg Barclays Bond Index and the S&P 500, respectively, at December 31, 2019. Of the \$10,633, the value of reinvested distributions was \$3,433.

Fannie Mae and Freddie Mac preferred stock accounted for 760 basis points of 2019 Fund performance. Fannie earned \$3.9 billion insuring \$3.0 trillion of mortgages in the latest three months. Freddie earned \$1.8 billion insuring \$2.1 trillion of mortgages. Fannie and Freddie, are expected to earn and retain billions of dollars each year – charging less than one-half of one percent to guarantee affordable, long-term mortgages. No other institution does it for less or better serves families who want the American dream of home ownership and financial independence. The White House and Treasury Department want Fannie and Freddie released from a perpetual conservatorship. The housing market is a major segment of the U.S. economy. Freeing Fannie and Freddie will accelerate America's growth and prosperity. In fact, the law mandates their eventual release and recent court decisions (after review of discovery documents) are starting to confirm.

St. Joe common stock accounted for 380 basis points of 2019 Fund performance. Record numbers of Americans are working and retiring in Florida, which now has more residents than New York. The company, with partners, has ignited residential and hospitality operations to meet accelerating demand. Over nine hundred homesites are under contract - four times more than two years ago. Nearly nine hundred apartments are under construction or leased. Latitude Margaritaville Watersound, a 55 & better community, is on the way with three thousand five hundred homes. St. Joe clubs and resorts welcomed thirty thousand guests last year with less than one hundred and thirty rooms. Over five hundred new rooms are in construction under Marriott and Hilton flags. Clubs by Joe exceeded twelve hundred members in its first three years. Watersound Beach Club finished its first expansion. The Camp Creek Golf Club is expanding with a 75 room boutique inn and resort amenities. St. Joe has returned \$581 million to shareholders by repurchasing 35% of outstanding common stock. New projects should accelerate operating profits for years to come. Project videos are updated monthly at [www.joe.com](http://www.joe.com).

Imperial Metal debt and common stock accounted for 180 basis points of 2019 performance. Imperial Metals sold seventy percent of Red Chris to Newcrest Mining, which should dramatically improve Red Chris' potential, production, and profits. Imperial is now debt free and continues to own thirty percent of a world class copper and gold resource. Imperial common stock has tremendous gains potential with firmer commodity prices.

Fund liquidity is expected to buffer market volatility. I and affiliated entities own 52% of the Fund due to a desire to eat one's own cooking and a belief that there will be investment opportunities.

Respectfully submitted,



Bruce R. Berkowitz  
Chief Investment Officer



# **FAIRHOLME**

*Ignore the crowd.*

**FAIRHOLME FUNDS, INC.**

**The Fairholme Fund (FAIRX)**

Seeking long-term growth of capital

**The Fairholme Focused Income Fund (FOCIX)**

Seeking current income

**The Fairholme Allocation Fund (FAAFX)**

Seeking long-term total return

## **Annual Report**

November 30, 2019

**Managed by Fairholme Capital Management**

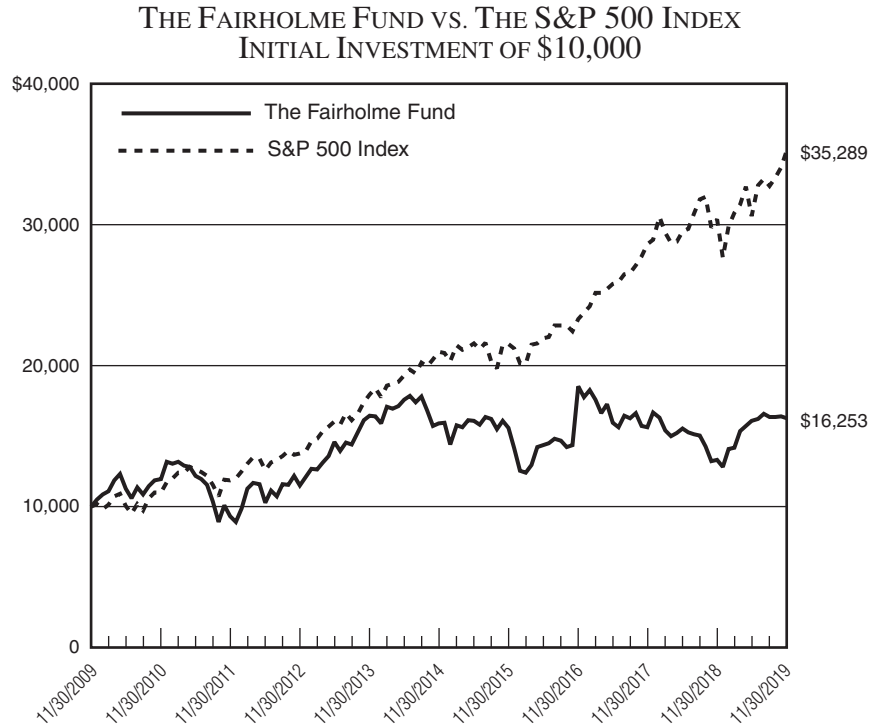
# FAIRHOLME FUNDS, INC.

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# FAIRHOLME FUNDS, INC.

FUND PERFORMANCE (unaudited)  
November 30, 2009 — November 30, 2019

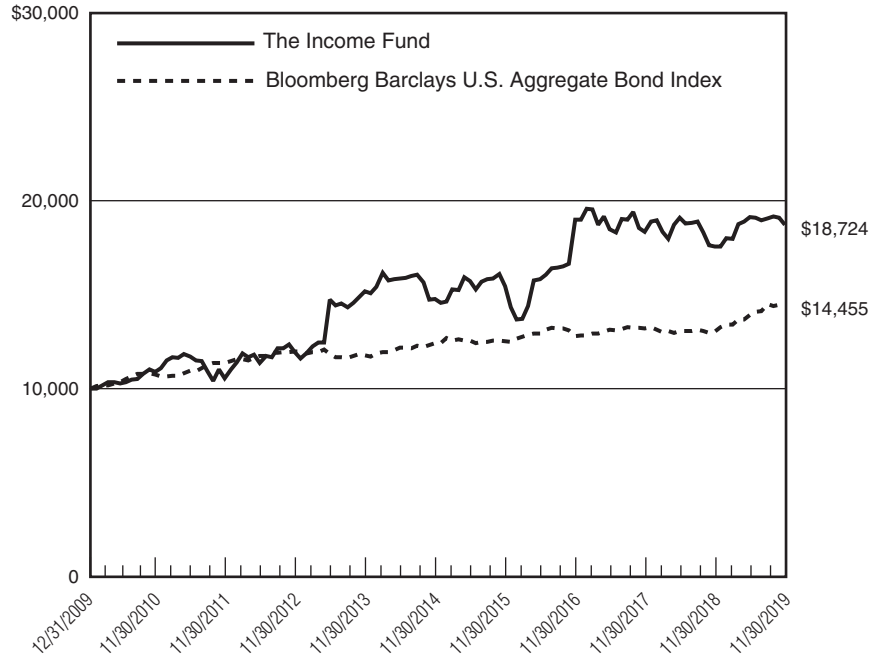


The Fairholme Fund (“The Fairholme Fund”) commenced operations on December 29, 1999. The chart above presents the performance of a \$10,000 investment for up to ten years to the latest annual period ending November 30, 2019.

The following notes pertain to the chart above as well as to the performance table included in the Management Discussion & Analysis Report. **Performance information in this report represents past performance and is not a guarantee of future results. The investment return and principal value of an investment in The Fairholme Fund will fluctuate, so that an investor’s shares when redeemed may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted within. The performance information does not reflect the taxes an investor would pay on distributions from The Fairholme Fund or upon redemption of shares of The Fairholme Fund. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at 1-866-202-2263.**

Data for both the S&P 500 Index and The Fairholme Fund are presented assuming all dividends and distributions have been reinvested and do not reflect any taxes that might have been incurred by a shareholder as a result of The Fairholme Fund distributions. The S&P 500 Index is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization and does not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees or other charges.

**THE INCOME FUND VS.  
The BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX  
INITIAL INVESTMENT OF \$10,000**

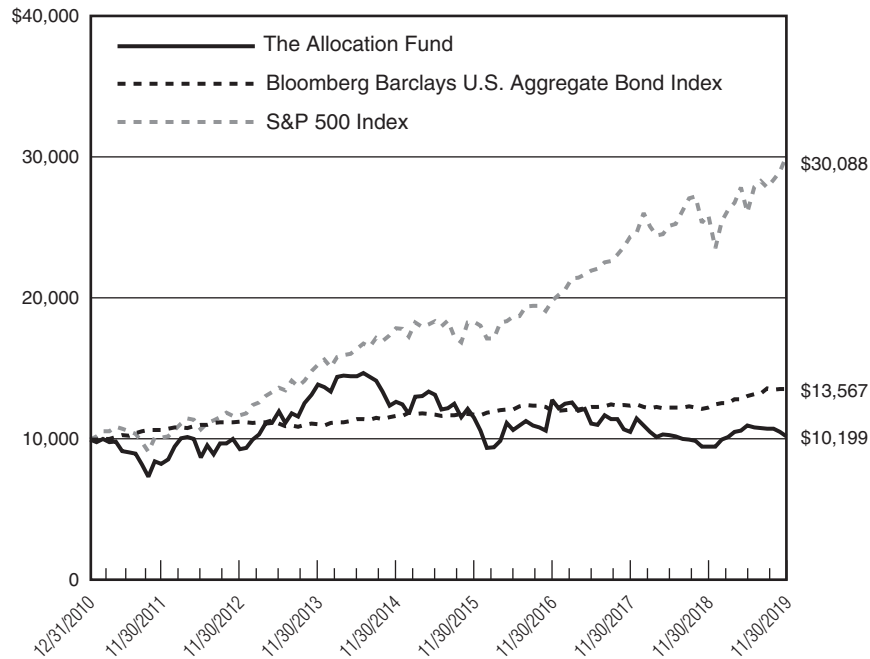


The Fairholme Focused Income Fund (“The Income Fund”) commenced operations on December 31, 2009. The chart above presents the performance of a \$10,000 investment from inception to the latest annual period ending November 30, 2019.

The following notes pertain to the chart above as well as to the performance table included in the Management Discussion & Analysis Report. **Performance information in this report represents past performance and is not a guarantee of future results. The investment return and principal value of an investment in The Income Fund will fluctuate, so that an investor’s shares when redeemed may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted within. The performance information does not reflect the taxes an investor would pay on distributions from The Income Fund or upon redemption of shares of The Income Fund. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at 1-866-202-2263.**

Data for both the Bloomberg Barclays U.S. Aggregate Bond Index and The Income Fund are presented assuming all dividends and distributions have been reinvested and do not reflect any taxes that might have been incurred by a shareholder as a result of The Income Fund distributions. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). The Bloomberg Barclays U.S. Aggregate Bond Index does not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees, or other charges.

THE ALLOCATION FUND VS. THE BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX AND THE S&P 500 INDEX  
INITIAL INVESTMENT OF \$10,000



The Fairholme Allocation Fund (“The Allocation Fund”) commenced operations on December 31, 2010. The chart above presents the performance of a \$10,000 investment from inception to the latest annual period ending November 30, 2019.

The following notes pertain to the chart above as well as to the performance table included in the Management Discussion & Analysis Report. **Performance information in this report represents past performance and is not a guarantee of future results. The investment return and principal value of an investment in The Allocation Fund will fluctuate, so that an investor’s shares when redeemed may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted within. The performance information does not reflect the taxes an investor would pay on distributions from The Allocation Fund or upon redemption of shares of The Allocation Fund. Most recent month-end performance and answers to any questions you may have can be obtained by calling Shareholder Services at 1-866-202-2263.**

Data for the Bloomberg Barclays U.S. Aggregate Bond Index, the S&P 500 Index and The Allocation Fund are presented assuming all dividends and distributions have been reinvested and do not reflect any taxes that might have been incurred by a shareholder as a result of The Allocation Fund distributions. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). The S&P 500 Index is a widely recognized, unmanaged index of 500 of the largest companies in the United States as measured by market capitalization. These index returns do not reflect any investment management fees or transaction expenses, nor the effects of taxes, fees or other charges.

## FAIRHOLME FUNDS, INC.

### MANAGEMENT DISCUSSION & ANALYSIS For the Fiscal Year Ended November 30, 2019

The Fairholme Fund, The Income Fund, and The Allocation Fund (each a “Fund” and collectively, the “Funds”) shares outstanding and unaudited net asset value per share (“NAV”) at November 30, 2019, the end of the Funds’ fiscal year, and NAVs at other pertinent dates, were as follows:

	<b>11/30/2019 Shares Outstanding</b>	<b>11/30/2019 NAV (unaudited)</b>	<b>05/31/2019 NAV (audited)</b>	<b>11/30/2018 NAV (unaudited)</b>
The Fairholme Fund	55,059,022	\$19.19	\$18.97	\$16.05
The Income Fund	17,529,966	\$10.23	\$10.61	\$ 9.88
The Allocation Fund	8,423,476	\$ 7.00	\$ 7.53	\$ 6.58

At December 31, 2019, the unaudited NAVs of The Fairholme Fund, The Income Fund, and The Allocation Fund were \$19.83, \$10.28, and \$7.20, respectively.

Performance figures below are shown for the Funds’ fiscal year ended November 30, 2019, and do not match calendar year figures for the period ended December 31, 2019, cited in the Portfolio Manager’s report.

<b>The Fairholme Fund Performance to 11/30/2019 (Unaudited)</b>	<b>Six Months</b>	<b>One Year</b>	<b>Five Years</b>	<b>Ten Years</b>	<b>Fifteen Years</b>	<b>Since Inception 12/29/1999</b>
<b>Cumulative:</b>						
The Fairholme Fund	1.16%	22.20%	2.36%	62.52%	135.62%	446.08%
S&P 500 Index	15.26%	16.11%	68.34%	252.90%	265.54%	215.97%
<b>Annualized:</b>						
The Fairholme Fund		22.20%	0.47%	4.98%	5.88%	8.89%
S&P 500 Index		16.11%	10.98%	13.44%	9.03%	5.94%

For the six months ended November 30, 2019, The Fairholme Fund was outperformed by the S&P 500 Index (“S&P 500”) by 14.1 percentage points, while over the last year The Fairholme Fund outperformed the S&P 500 by 6.09 percentage points. From inception, The Fairholme Fund outperformed the S&P 500 by 2.95 percentage points per annum, or on a cumulative basis, 230.11 percentage points over nineteen years and eleven months.

<b>The Income Fund Performance to 11/30/2019 (Unaudited)</b>	<b>Six Months</b>	<b>One Year</b>	<b>Five Year</b>	<b>Since Inception 12/31/2009</b>
<b>Cumulative:</b>				
The Income Fund		-2.22%	6.49%	87.24%
Bloomberg Barclays Bond Index		3.81%	10.79%	44.55%
<b>Annualized:</b>				
The Income Fund			6.49%	6.53%
Bloomberg Barclays Bond Index			10.79%	3.79%



## FAIRHOLME FUNDS, INC.

### MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2019

For the six months ended November 30, 2019, The Income Fund was outperformed by the Bloomberg Barclays U.S. Aggregate Bond Index (“Bloomberg Barclays Bond Index”) by 6.03 percentage points, while over the last year The Income Fund was outperformed by the Bloomberg Barclays Bond Index by 4.30 percentage points. From inception, The Income Fund outperformed the Bloomberg Barclays Bond Index by 2.74 percentage points per annum, or on a cumulative basis, 42.69 percentage points over nine years and eleven months.

<b>The Allocation Fund Performance to 11/30/2019 (Unaudited)</b>	<b>Six Months</b>	<b>One Year</b>	<b>Five Year</b>	<b>Since Inception 12/31/2010</b>
<b>Cumulative:</b>				
The Allocation Fund	-7.04%	7.61%	-19.39%	1.98%
Bloomberg Barclays Bond Index	3.81%	10.79%	16.40%	35.67%
S&P 500 Index	15.26%	16.11%	68.34%	200.88%
<b>Annualized:</b>				
The Allocation Fund		7.61%	-4.22%	0.22%
Bloomberg Barclays Bond Index		10.79%	3.08%	3.48%
S&P 500 Index		16.11%	10.98%	13.15%

For the six months ended November 30, 2019, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 10.85 and 22.30 percentage points, respectively, while over the last year The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index by 3.18 percentage points and outperformed the S&P 500 by 8.50 percentage points. From inception, The Allocation Fund was outperformed by the Bloomberg Barclays Bond Index and the S&P 500 by 3.26 and 12.93 percentage points per annum, respectively, or on a cumulative basis, 33.69 and 198.90 percentage points over eight years and eleven months.

Fairholme Capital Management, L.L.C. (the “Manager”) believes performance over shorter periods is likely to be less meaningful than performance over longer periods. Investors are cautioned not to rely on short-term results. The fact that securities increase or decline in value does not always indicate that the Manager believes these securities to be more or less attractive — in fact, the Manager believes that some price increases present selling opportunities and some price declines present buying opportunities.

Further, shareholders should note that the S&P 500 and the Bloomberg Barclays Bond Index are unmanaged indices incurring no fees, expenses, or tax effects and are shown solely to compare the Funds’ performance to that of unmanaged and diversified indices of securities. Shareholders are also cautioned that it is possible that some securities mentioned in this discussion may no longer be held by a Fund subsequent to the end of the fiscal period, and that a Fund may have made new investments that are not yet required to be disclosed. It is the Funds’ general policy not to disclose portfolio holdings other than when required by relevant law or regulation. Portfolio holdings are subject to change without notice.

Not all Fund portfolio dispositions or additions are material, and, while the Funds and the Manager have long-term objectives, it is possible that a security sold or purchased in one period will be purchased or sold in a subsequent period. Generally, the Manager determines to buy and sell based on its estimates of the, respectively, relative intrinsic values and the Manager’s assessment of certain attractive characteristics of a company, general market conditions and expected future returns of an investment.

The Manager invests each Fund’s assets in securities to the extent the Manager finds reasonable investment opportunities in accordance with the Fund’s respective investment strategies, policies and restrictions, as stated in the Fund’s Prospectus and may invest a significant portion of each Fund’s assets in cash. The Manager views liquidity as a strategic advantage. At November 30, 2019, cash and cash equivalents (consisting of cash, commercial

## FAIRHOLME FUNDS, INC.

### MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2019

paper, deposit accounts, U.S. Treasury Bills, and money-market funds) represented 41.3%, 86.9%, and 67.5% of The Fairholme Fund, The Income Fund, and The Allocation Fund total assets, respectively. Since inception, the Funds have held varying levels of cash and cash equivalents for periods without, in the Manager's view, negatively influencing performance.

Each Fund is considered to be "non-diversified" under the Investment Company Act of 1940. Accordingly, each Fund can invest a greater percentage of its assets in fewer securities than a diversified fund, and can invest a significant portion of cash and liquid assets held by the Fund in one or more higher-risk securities at any time, including periods when a market is weak or a particular security declines sharply. The Funds may also have a greater percentage of assets invested in a particular sector than a diversified fund, exposing the Funds to the risk of an unanticipated event or condition and risks affecting a single company, sector or security.

The commentaries below provide details of each Fund's portfolio holdings by issuer and sector, as well as reporting the most significant positive and negative performance by investment for the fiscal year ended November 30, 2019.

The most significant gains in each of the Funds' portfolios related to positive developments in the Real Estate Management and Development, Mortgage Finance, and Metals & Mining sectors. Investments in the Retail Department Stores, Oil & Natural Gas Exploration and Leisure Products sectors saw some losses during the fiscal year.

The Manager made no changes to the core investment strategies and techniques it employed during the fiscal year ended November 30, 2019.

For the fiscal year ended November 30, 2019, The Fairholme Fund investments that were the biggest contributors to positive performance were the St. Joe Co. ("Joe"), Imperial Metals Corp. ("Imperial"), Federal Home Loan Mortgage Corp. ("Freddie"), and Federal National Mortgage Association ("Fannie"). There weren't any significant contributors to negative performance during the period. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2019.

<b>The Fairholme Fund Top Holdings by Issuer* (% of Net Assets)</b>		<b>The Fairholme Fund Top Sectors (% of Net Assets)</b>	
The St. Joe Co.	39.9%	Cash and Cash Equivalents**	41.3%
Federal Home Loan Mortgage Corp.	8.9%	Real Estate Management & Development	39.9%
Federal National Mortgage Association	8.9%	Mortgage Finance	17.8%
Imperial Metals Corp.	0.8%	Metals & Mining	0.8%
Vista Outdoor, Inc.	0.1%	Leisure Products	0.1%
Sears Holdings Corp.	0.1%	Retail Department Store	0.1%
	<u>58.7%</u>		<u>100.0%</u>

\* Excludes cash, U.S. Treasury Bills, commercial paper, and money market funds.

\*\* Includes cash, U.S. Treasury Bills, commercial paper, and money market funds.

## FAIRHOLME FUNDS, INC.

### MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2019

For the fiscal year ended November 30, 2019, The Income Fund investments that were the biggest contributors to positive performance were Imperial and Freddie. The biggest contributor to negative performance during the period was investment in Chesapeake Energy Corp. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2019.

<b>The Income Fund Top Holdings by Issuer* (% of Net Assets)</b>		<b>The Income Fund Top Sectors (% of Net Assets)</b>	
Federal Home Loan Mortgage Corp.	4.2%	Cash and Cash Equivalents**	86.9%
The Goldman Sachs Group, Inc.	2.7%	Mortgage Finance	4.2%
GMAC Capital Trust I, Inc.	1.8%	Diversified Banks	3.0%
Chesapeake Energy Corp.	1.3%	Capital Markets	2.7%
Bank of America Corp.	1.2%	Consumer Finance	1.8%
JP Morgan Chase & Co.	1.1%	Oil & Natural Gas Exploration	1.3%
Wells Fargo & Co.	0.7%	Retail Department Stores	0.1%
Sears Holdings Corp.	0.1%		
	<u>13.1%</u>		<u>100.0%</u>

\* Excludes cash, U.S. Treasury Bills, commercial paper, and money market funds.

\*\* Includes cash, U.S. Treasury Bills, commercial paper, and money market funds.

For the fiscal year ended November 30, 2019, The Allocation Fund investments that were the biggest contributors to positive performance were Freddie, Fannie, Joe, and Imperial. The biggest contributor to negative performance during the period was investment in Chesapeake Energy Corp. The following charts show the top holdings by issuer and sector in descending order of net assets as of November 30, 2019.

<b>The Allocation Fund Top Holdings by Issuer* (% of Net Assets)</b>		<b>The Allocation Fund Top Sectors (% of Net Assets)</b>	
The St. Joe Co.	10.9%	Cash and Cash Equivalents**	67.5%
Federal Home Loan Mortgage Corp.	7.9%	Mortgage Finance	15.7%
Federal National Mortgage Association	7.8%	Real Estate Management & Development	10.9%
Imperial Metals Corp.	4.8%	Metals & Mining	4.8%
Chesapeake Energy Corp.	1.2%	Oil & Natural Gas Exploration	1.2%
	<u>32.6%</u>		<u>100.1%</u>

\* Excludes cash, U.S. Treasury Bills, commercial paper, and money market funds.

\*\* Includes cash, U.S. Treasury Bills, commercial paper, and money market funds.

The Manager views the ability to focus on fewer investments than a diversified fund as a strategic advantage. However, such a strategy may negatively influence long-term performance.

A more complete discussion and description of the principal risks of investing in the Funds can be found in the Funds' Prospectus and Statement of Additional Information.

Large cash inflows or outflows may adversely affect the Funds' performance. Such flows are monitored and actions deemed appropriate by the Manager are contemplated for when such flows could negatively impact performance.

## FAIRHOLME FUNDS, INC.

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### MANAGEMENT DISCUSSION & ANALYSIS (continued) For the Fiscal Year Ended November 30, 2019

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Since inception, the Funds have been advised by the Manager. Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board of Directors (the "Board" or the "Directors"), and his affiliates beneficially own an aggregate 10,784,408, 6,691,382, and 4,382,931 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at November 30, 2019. While there is no requirement that Mr. Berkowitz own shares of the Funds, such holdings are believed to help align the interests of the Manager with the interests of the shareholders.

The Board, including the Independent Directors, continues to believe that it is in the best interests of the Funds to have Mr. Berkowitz serve as Chairman of the Board given: his long-term relative performance; his experience, commitment, and significant personal investment in the Funds; the present composition of the Board; and current rules and regulations. A Director and Officers of the Funds are also Officers of the Manager. Nevertheless, at November 30, 2019, a majority of Directors were independent of the Manager, no stock option or restricted stock plans exist, Officers received no direct compensation from the Funds, and the Director affiliated with the Manager received no compensation for being a Director.

For more complete information about the Funds, or to obtain a current Prospectus, please visit [www.fairholmefunds.com](http://www.fairholmefunds.com) or call Shareholder Services at (866) 202-2263.

# FAIRHOLME FUNDS, INC.

## EXPENSE EXAMPLE

For the Six Month Period from June 1, 2019  
through November 30, 2019 (unaudited)

As a shareholder of a Fund, you incur two types of costs: (1) transaction costs including, but not limited to, transaction fees at some broker-dealers, custodial fees for retirement accounts, redemption fees (on The Fairholme Fund and The Allocation Fund shares redeemed or exchanged within 60 days of purchase), and wire transfer fees; and (2) ongoing costs including, but not limited to, management fees paid to the Manager. The following examples are intended to help you understand your ongoing costs (in dollars) of investing in the Funds and to compare these costs with the ongoing costs of investing in other mutual funds.

These examples are based on an investment of \$1,000 invested in the Funds at June 1, 2019, and held for the entire six month period ending November 30, 2019.

### Actual Expenses

The first line of the tables below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you had invested at the beginning of the period, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading "Expenses Paid During the Period" to estimate the expenses you paid on your account during this period.

### Hypothetical Example for Comparison Purposes

The second line of the tables below provides information about hypothetical account values and hypothetical expenses based on each Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return for the period presented. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses that you paid for the period presented. However, you may use this information to compare ongoing costs of investing in the Funds with the ongoing costs of investing in other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as redemption fees (if any), or other direct costs. Therefore, the second line of the tables is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your total costs would be higher.

	Beginning Account Value June 1, 2019	Ending Account Value November 30, 2019	Annualized Expense Ratio*	Expenses Paid During the Period June 1, 2019 Through November 30, 2019**
<b>The Fairholme Fund</b>				
Actual	\$1,000.00	\$1,011.60	0.81%	\$4.08
Hypothetical (5% return before expenses)	\$1,000.00	\$1,021.01	0.81%	\$4.10
<b>The Income Fund</b>				
Actual	\$1,000.00	\$ 977.80	0.82%	\$4.07
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.96	0.82%	\$4.15
<b>The Allocation Fund</b>				
Actual	\$1,000.00	\$ 929.60	0.82%	\$3.97
Hypothetical (5% return before expenses)	\$1,000.00	\$1,020.96	0.82%	\$4.15

\* Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Fairholme Fund, The Income Fund and The Allocation Fund to the extent necessary to limit the management fee paid to the Manager by The Fairholme Fund, The Income Fund and The Allocation Fund, respectively, to an annual rate of 0.80% of that Fund's daily average net asset value. This undertaking may be terminated by the Manager upon 60 days' written notice to the applicable Fund.

\*\*Expenses are equal to each Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 183 days/365 days (to reflect the one-half year period).

# THE FAIRHOLME FUND

## SCHEDULE OF INVESTMENTS November 30, 2019

Shares	Value	Principal	Value
<b>DOMESTIC EQUITY SECURITIES — 40.1%</b>		<b>COMMERCIAL PAPER — 35.6%</b>	
<b>LEISURE PRODUCTS — 0.1%</b>		<b>APPAREL — 0.1%</b>	
152,790	Vista Outdoor, Inc. <sup>(a)</sup>	\$ 1,265,101	\$ 1,500,000
			VF Corp.
			1.651%, 12/09/2019 <sup>(e)(f)</sup>
			\$ 1,499,244
<b>REAL ESTATE MANAGEMENT &amp; DEVELOPMENT — 40.0%</b>		<b>AUTO MANUFACTURERS — 2.2%</b>	
22,208,024	The St. Joe Co. <sup>(a)(b)</sup>	421,952,456	Ford Motor Credit Co.
			14,000,000
			2.512%, 01/02/2020 <sup>(e)(f)</sup>
			8,900,000
			2.358%, 01/03/2020 <sup>(e)(f)</sup>
			13,965,582
			8,877,442
			22,843,024
<b>TOTAL DOMESTIC EQUITY SECURITIES (COST \$595,247,788)</b>			
			423,217,557
<b>FOREIGN EQUITY SECURITIES — 0.8%</b>		<b>BEVERAGES — 5.4%</b>	
<b>CANADA — 0.8%</b>		Anheuser-Busch Inbev NV	
		11,000,000	1.732%, 12/09/2019 <sup>(e)(f)</sup>
		19,000,000	1.752%, 12/18/2019 <sup>(e)(f)</sup>
			18,982,321
			Constellation Brands, Inc.
		17,000,000	1.922%, 12/16/2019 <sup>(e)(f)</sup>
		10,000,000	2.007%, 01/24/2020 <sup>(e)(f)</sup>
			16,979,666
			9,959,136
			56,915,794
<b>TOTAL FOREIGN EQUITY SECURITIES (COST \$64,630,492)</b>			
			8,787,024
<b>DOMESTIC PREFERRED EQUITY SECURITIES — 17.8%</b>		<b>CHEMICALS — 2.8%</b>	
<b>MORTGAGE FINANCE — 17.8%</b>		Albemarle Corp.	
8,955,013	Federal Home Loan Mortgage Corp.	11,000,000	1.782%, 12/03/2019 <sup>(e)(f)</sup>
	7.875%, Series Z <sup>(a)(c)</sup>	6,000,000	1.781%, 12/05/2019 <sup>(e)(f)</sup>
		8,000,000	1.782%, 12/06/2019 <sup>(e)(f)</sup>
		2,000,000	1.781%, 12/09/2019 <sup>(e)(f)</sup>
8,784,077	Federal National Mortgage Association	3,000,000	1.835%, 01/06/2020 <sup>(e)(f)</sup>
	7.750%, Series S <sup>(a)(c)</sup>		2,991,871
			29,983,701
			187,490,216
			10,997,573
			5,998,461
			7,996,904
			1,998,892
			2,991,871
			29,983,701
<b>TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$75,287,318)</b>			
			187,490,216
<b>Principal</b>		<b>DIVERSIFIED TELECOMMUNICATIONS — 1.6%</b>	
<b>DOMESTIC CORPORATE BONDS — 0.1%</b>		AT&T, Inc.	
<b>RETAIL DEPARTMENT STORES — 0.1%</b>		1,000,000	1.811%, 12/02/2019 <sup>(e)(f)</sup>
\$97,022,000	Sears Holdings Corp.	10,000,000	1.903%, 12/04/2019 <sup>(e)(f)</sup>
	8.000%, 12/15/2019 <sup>(d)</sup>	5,550,000	1.803%, 12/11/2019 <sup>(e)(f)</sup>
			5,546,615
			16,544,096
			12,847,322
			9,994,338
			5,995,700
			28,837,360
<b>TOTAL DOMESTIC CORPORATE BONDS (COST \$97,385,904)</b>			
			1,144,860
			8,970,000
			Duke Energy Corp.
			1.741%, 12/03/2019 <sup>(e)(f)</sup>
			8,968,243

The accompanying notes are an integral part of the financial statements.

# THE FAIRHOLME FUND

SCHEDULE OF INVESTMENTS (continued)  
November 30, 2019

<u>Principal</u>		<u>Value</u>	<u>Principal</u>		<u>Value</u>
	<b>COMMERCIAL PAPER</b>			<b>COMMERCIAL PAPER</b>	
	(CONTINUED) — 35.6%			(CONTINUED) — 35.6%	
	<b>FOOD PRODUCTS — 2.2%</b>			<b>RAILROADS — 1.4%</b>	
	Mondelez International, Inc.			Canadian Pacific Railway Ltd.	
\$ 8,000,000	1.792%, 12/10/2019 <sup>(e)(f)</sup>	\$ 7,995,705	\$ 6,000,000	1.752%, 12/12/2019 <sup>(e)(f)</sup>	\$ 5,996,115
10,000,000	1.812%, 12/13/2019 <sup>(e)(f)</sup>	9,993,043	9,000,000	1.855%, 01/21/2020 <sup>(e)(f)</sup>	8,974,878
5,000,000	1.793%, 12/26/2019 <sup>(e)(f)</sup>	4,993,100			<u>14,970,993</u>
		<u>22,981,848</u>			
	<b>HOTEL, RESORTS &amp; CRUISE LINES — 4.8%</b>			<b>RETAIL DRUG STORE — 0.4%</b>	
20,000,000	Marriott International, Inc.		4,000,000	Walgreens Boots Alliance, Inc.	
	2.078%, 12/20/2019 <sup>(e)(f)</sup>	19,978,767		2.025%, 01/13/2020 <sup>(e)(f)</sup>	<u>3,989,875</u>
	Royal Caribbean Cruises Ltd.				
8,000,000	1.951%, 12/03/2019 <sup>(e)(f)</sup>	7,998,400		<b>TECHNOLOGY HARDWARE &amp; EQUIPMENT — 0.5%</b>	
22,000,000	2.004%, 12/27/2019 <sup>(e)(f)</sup>	21,968,464	5,000,000	Arrow Electronics, Inc.	
1,000,000	2.054%, 01/06/2020 <sup>(e)(f)</sup>	997,795		1.903%, 12/03/2019 <sup>(e)(f)</sup>	<u>4,998,525</u>
		<u>50,943,426</u>			
	<b>MULTIMEDIA — 2.9%</b>			<b>WIRELESS COMMUNICATION SERVICES — 0.3%</b>	
	Viacom, Inc.		3,000,000	Bell Canada	
2,000,000	1.911%, 12/10/2019 <sup>(e)(f)</sup>	1,998,908		1.906%, 01/06/2020 <sup>(e)(f)</sup>	<u>2,994,018</u>
19,000,000	1.912%, 12/12/2019 <sup>(e)(f)</sup>	18,987,698			
10,000,000	1.902%, 12/13/2019 <sup>(e)(f)</sup>	9,993,012		<b>TOTAL COMMERCIAL PAPER</b>	
		<u>30,979,618</u>		(COST \$376,474,448)	<u>376,420,433</u>
	<b>OIL &amp; GAS STORAGE &amp; TRANSPORTATION — 3.0%</b>			<b>U.S. GOVERNMENT OBLIGATIONS — 4.7%</b>	
2,000,000	Energy Transfer Operating LP		50,000,000	U.S. Treasury Bills	
	2.051%, 12/04/2019 <sup>(e)(f)</sup>	1,999,266		1.666%, 12/17/2019 <sup>(f)</sup>	<u>49,967,109</u>
	Enterprise Products Partners LP			<b>TOTAL U.S. GOVERNMENT OBLIGATIONS</b>	
15,000,000	1.801%, 12/02/2019 <sup>(e)(f)</sup>	14,997,800		(COST \$49,963,078)	<u>49,967,109</u>
15,000,000	1.801%, 12/05/2019 <sup>(e)(f)</sup>	14,995,575			
		<u>31,992,641</u>		<b>Shares</b>	
	<b>OIL &amp; NATURAL GAS EXPLORATION — 0.9%</b>			<b>MONEY MARKET FUNDS — 1.0%</b>	
10,000,000	Canadian Natural Resources Ltd.		10,371,371	Fidelity Investments Money	
	1.841%, 12/11/2019 <sup>(e)(f)</sup>	9,994,780		Market Treasury Portfolio -	
				Class I, 1.53% <sup>(g)</sup>	<u>10,371,371</u>
	<b>PACKAGED FOODS — 3.5%</b>			<b>TOTAL MONEY MARKET FUNDS</b>	
	Campbell Soup Co.			(COST \$10,371,371)	<u>10,371,371</u>
11,000,000	2.145%, 12/06/2019 <sup>(e)(f)</sup>	10,995,945		<b>TOTAL INVESTMENTS — 100.1%</b>	
10,000,000	2.156%, 12/09/2019 <sup>(e)(f)</sup>	9,994,750		(COST \$1,269,360,399)	1,057,398,570
10,000,000	1.882%, 12/10/2019 <sup>(e)(f)</sup>	9,994,231		<b>LIABILITIES IN EXCESS OF OTHER ASSETS — (0.1)%</b>	<u>(858,030)</u>
	Tyson Foods, Inc.			<b>NET ASSETS — 100.0%</b>	<u>\$1,056,540,540</u>
5,000,000	1.752%, 12/02/2019 <sup>(e)(f)</sup>	4,999,207			
1,000,000	1.782%, 12/16/2019 <sup>(e)(f)</sup>	999,114			
		<u>36,983,247</u>			

The accompanying notes are an integral part of the financial statements.

# THE FAIRHOLME FUND

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SCHEDULE OF INVESTMENTS (continued)  
November 30, 2019

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- <sup>(a)</sup> Non-income producing security.
- <sup>(b)</sup> Affiliated Company. See Note 8.
- <sup>(c)</sup> Variable rate security. Rates shown are the effective rates as of November 30, 2019.
- <sup>(d)</sup> Security in default and no interest was accrued as of November 30, 2019.
- <sup>(e)</sup> Restricted security as set forth in Rule 144(a) under the Securities Act of 1933. The value of these investments totals \$376,420,433, which represents 35.63% of The Fairholme Fund's net assets.
- <sup>(f)</sup> Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.
- <sup>(g)</sup> Annualized based on the 1-day yield as of November 30, 2019.

*The accompanying notes are an integral part of the financial statements.*



# THE FAIRHOLME FUND

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STATEMENT OF ASSETS & LIABILITIES  
November 30, 2019

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## Assets

Investments, at Fair Value:

Unaffiliated Issuers (Cost — \$611,526,290)

\$ 626,659,090

Affiliated Issuers (Cost — \$657,834,109)

430,739,480

Interest Receivable

181,235

Receivable for Capital Shares Sold

10,388

Total Assets

1,057,590,193

## Liabilities

Accrued Management Fees

689,013

Payable for Capital Shares Redeemed

360,640

Total Liabilities

1,049,653

## NET ASSETS

\$1,056,540,540

## Net Assets Consist of:

Paid-In Capital

\$2,008,134,487

Total Accumulated Losses

(951,593,947)

## NET ASSETS

\$1,056,540,540

Shares of Common Stock Outstanding\* (\$0.0001 par value)

55,059,022

Net Asset Value, Offering and Redemption Price Per Share

(\$1,056,540,540 / 55,059,022 shares)

\$ 19.19

\* 700,000,000 shares authorized in total.

*The accompanying notes are an integral part of the financial statements.*

# THE FAIRHOLME FUND

## STATEMENT OF OPERATIONS

	<b>For the Fiscal Year Ended November 30, 2019</b>
<b>Investment Income</b>	
Interest — Unaffiliated Issuers	\$ 10,120,431
Interest — Affiliated Issuers	7,897,101
Dividends — Unaffiliated Issuers	158,400
Total Investment Income	<u>18,175,932</u>
<b>Expenses</b>	
Management Fees	10,940,735
Legal Expenses	44,395
Total Expenses	<u>10,985,130</u>
Less: Voluntary Reduction of Management Fees	<u>(2,188,147)</u>
Net Expenses	<u>8,796,983</u>
Net Investment Income	<u>9,378,949</u>
<b>Realized and Unrealized Gain on Investments, Foreign Currency Related Transactions and Redemption In-Kind</b>	
Net Realized Gain on Investments and Foreign Currency Related Transactions*	
Unaffiliated Issuers	3,272,103
Affiliated Issuers	1,335
Net Realized Gain on Redemption In-Kind	
Unaffiliated Issuers	1,021,307
Affiliated Issuers	313,156
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>202,650,238</u>
Net Realized and Unrealized Gain on Investments, Foreign Currency Related Transactions and Redemption In-Kind	<u>207,258,139</u>
<b>NET INCREASE IN NET ASSETS FROM OPERATIONS</b>	<u><u>\$216,637,088</u></u>

\* Realized gain includes \$5,666,801 related to amounts received from a class action settlement for a security previously held by the Fund.

*The accompanying notes are an integral part of the financial statements.*

# THE FAIRHOLME FUND

## STATEMENTS OF CHANGES IN NET ASSETS

	For the Fiscal Year Ended November 30, 2019	For the Fiscal Year Ended November 30, 2018
<b>CHANGES IN NET ASSETS</b>		
<b>From Operations</b>		
Net Investment Income	\$ 9,378,949	\$ 23,034,554
Net Realized Gain (Loss) on Investments, Redemption In-Kind and Foreign Currency Related Transactions	4,607,901	(745,845,681)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>202,650,238</u>	<u>524,777,058</u>
Net Increase (Decrease) in Net Assets from Operations	<u>216,637,088</u>	<u>(198,034,069)</u>
<b>From Dividends and Distributions to Shareholders</b>		
Net Decrease in Net Assets from Dividends and Distributions	<u>(22,052,477)</u>	<u>(24,854,774)</u>
<b>From Capital Share Transactions</b>		
Proceeds from Sale of Shares	27,873,325	90,282,215
Shares Issued in Reinvestment of Dividends and Distributions	20,660,229	23,181,634
Redemption Fees	37,027	33,620
Cost of Shares Redeemed	(238,279,392)	(697,223,062)
Cost of Shares Redeemed In-Kind	<u>(13,200,907)</u>	<u>—</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(202,909,718)</u>	<u>(583,725,593)</u>
<b>NET ASSETS</b>		
Net Decrease in Net Assets	(8,325,107)	(806,614,436)
Net Assets at Beginning of Year	<u>1,064,865,647</u>	<u>1,871,480,083</u>
Net Assets at End of Year	<u>\$1,056,540,540</u>	<u>\$1,064,865,647</u>
<b>SHARES TRANSACTIONS</b>		
Issued	1,583,280	4,864,645
Reinvested	1,352,111	1,184,549
Redeemed	(13,466,927)	(37,685,937)
Redeemed In-Kind	<u>(761,812)</u>	<u>—</u>
Net Decrease in Shares	(11,293,348)	(31,636,743)
Shares Outstanding at Beginning of Year	<u>66,352,370</u>	<u>97,989,113</u>
Shares Outstanding at End of Year	<u>55,059,022</u>	<u>66,352,370</u>

The accompanying notes are an integral part of the financial statements.

# THE FAIRHOLME FUND

## FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30,				
	2019	2018	2017	2016	2015
<b>PER SHARE OPERATING PERFORMANCE</b>					
<b>NET ASSET VALUE, BEGINNING OF YEAR</b>	\$16.05	\$19.10	\$24.26	\$34.24	\$37.96
<b>Investment Operations</b>					
Net Investment Income <sup>(1)</sup>	0.16	0.29	0.23	0.33	0.46
Net Realized and Unrealized Gain (Loss) on Investments	3.32	(3.08)	(3.81)	2.60	(1.10)
Total from Investment Operations	3.48	(2.79)	(3.58)	2.93	(0.64)
<b>Dividends and Distributions</b>					
From Net Investment Income	(0.34)	(0.26)	(0.40)	(0.60)	—
From Realized Capital Gains	—	—	(1.18)	(12.31)	(3.08)
Total Dividends and Distributions	(0.34)	(0.26)	(1.58)	(12.91)	(3.08)
<b>Redemption Fees<sup>(1)</sup></b>	0.00 <sup>(2)</sup>	0.00 <sup>(2)</sup>	0.00 <sup>(2)</sup>	0.00 <sup>(2)</sup>	0.00 <sup>(2)</sup>
<b>NET ASSET VALUE, END OF YEAR</b>	\$19.19	\$16.05	\$19.10	\$24.26	\$34.24
<b>TOTAL RETURN</b>	22.20%	(14.85)%	(15.64)%	18.93%	(1.95)%
<b>Ratio/Supplemental Data</b>					
Net Assets, End of Year (in 000's)	\$1,056,541	\$1,064,866	\$1,871,480	\$3,155,709	\$4,612,354
Ratio of Gross Expenses to Average Net Assets	1.00% <sup>(3)</sup>	1.00%	1.02% <sup>(4)</sup>	1.02% <sup>(4)</sup>	1.03% <sup>(5)</sup>
Ratio of Net Expenses to Average Net Assets	0.80% <sup>(3)(6)</sup>	0.82% <sup>(6)</sup>	1.02% <sup>(4)</sup>	1.02% <sup>(4)</sup>	1.03% <sup>(5)</sup>
Ratio of Net Investment Income (Loss) to Average Net Assets	0.86%	1.57%	1.14%	1.79%	1.31%
Portfolio Turnover Rate	8.05%	16.29%	6.57%	19.19%	40.46%

<sup>(1)</sup> Based on average shares outstanding.

<sup>(2)</sup> Redemption fees represent less than \$0.01.

<sup>(3)</sup> Less than 0.01% is attributable to legal expenses incurred outside of the 1.00% management fee.

<sup>(4)</sup> 0.02% is attributable to legal expenses incurred outside of the 1.00% management fee.

<sup>(5)</sup> 0.03% is attributable to legal expenses incurred outside of the 1.00% management fee and less than 0.01% is attributable to registration fees and miscellaneous expenses incurred outside of the 1.00% management fee.

<sup>(6)</sup> Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Fairholme Fund to the extent necessary to limit the management fee paid to the Manager by The Fairholme Fund to an annual rate of 0.80% of the daily average net asset value of The Fairholme Fund.

The accompanying notes are an integral part of the financial statements.

# THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS  
November 30, 2019

Shares		Value	Principal		Value
	<b>DOMESTIC PREFERRED EQUITY SECURITIES — 7.2%</b>			<b>DOMESTIC CORPORATE BONDS (CONTINUED) — 5.9%</b>	
	<b>CONSUMER FINANCE — 1.8%</b>			<b>RETAIL DEPARTMENT STORES — 0.1%</b>	
123,700	GMAC Capital Trust I, Inc. 7.695%, Series 2 <sup>(a)</sup>	\$ 3,207,541		\$17,595,500	
	<b>MORTGAGE FINANCE — 4.2%</b>			Sears Holdings Corp. 8.000%, 12/15/2019 <sup>(e)</sup>	\$ 207,627
	Federal Home Loan Mortgage Corp.			<b>TOTAL DOMESTIC CORPORATE BONDS (COST \$26,988,480)</b>	<b>10,502,882</b>
302,300	5.100%, Series H <sup>(a)(b)</sup>	5,139,100			
260,924	6.550%, Series Y <sup>(a)(b)</sup>	2,374,408		<b>COMMERCIAL PAPER — 80.5%</b>	
		<u>7,513,508</u>		<b>APPAREL — 3.1%</b>	
	<b>OIL &amp; NATURAL GAS EXPLORATION — 1.2%</b>			VF Corp.	
	Chesapeake Energy Corp.		1,500,000	1.651%, 12/03/2019 <sup>(h)(i)</sup>	1,499,699
42,416	5.000%	752,884	4,000,000	1.651%, 12/05/2019 <sup>(h)(i)</sup>	3,998,794
6,083	5.750%	909,104			
3,350	5.750%	496,169		<b>AUTO MANUFACTURERS — 3.9%</b>	
600	5.750% <sup>(c)</sup>	89,670		7,000,000	
100	5.750% <sup>(c)</sup>	14,811		Ford Motor Credit Co. 2.514%, 01/02/2020 <sup>(h)(i)</sup>	6,982,791
		<u>2,262,638</u>		<b>AUTOMOTIVE RETAIL — 3.2%</b>	
	<b>TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$15,409,950)</b>	<u>12,983,687</u>		5,800,000	
				AutoZone, Inc. 1.721%, 12/04/2019 <sup>(h)(i)</sup>	5,798,577
	<b>Principal</b>			<b>BEVERAGES — 5.6%</b>	
	<b>DOMESTIC CORPORATE BONDS — 5.9%</b>			Anheuser-Busch Inbev NV	
	<b>CAPITAL MARKETS — 2.7%</b>			4,000,000	1.732%, 12/09/2019 <sup>(h)(i)</sup>
\$4,823,000	The Goldman Sachs Group, Inc. 5.785%, Series L <sup>(d)(e)</sup>	4,843,739		1,000,000	1.732%, 12/16/2019 <sup>(h)(i)</sup>
	<b>DIVERSIFIED BANKS — 3.1%</b>			5,000,000	Constellation Brands, Inc. 2.007%, 01/13/2020 <sup>(h)(i)</sup>
2,000,000	Bank of America Corp. 5.200%, Series U <sup>(d)(f)</sup>	2,090,800			4,983,813
2,000,000	JPMorgan Chase & Co. 5.300%, Series Z <sup>(d)(f)</sup>	2,024,000		<b>CHEMICALS — 5.6%</b>	
1,318,000	Wells Fargo & Co. (3 mo. LIBOR + 3.770%) 5.889%, Series K <sup>(d)(e)</sup>	1,336,716		5,000,000	Albemarle Corp. 1.781%, 12/09/2019 <sup>(h)(i)</sup>
		<u>5,451,516</u>		5,000,000	Sherwin-Williams Co. 1.931%, 12/04/2019 <sup>(h)(i)</sup>
					4,998,919
					<u>9,996,150</u>
				<b>DIVERSIFIED TELECOMMUNICATIONS — 7.2%</b>	
				AT&T, Inc.	
			1,000,000	1.811%, 12/02/2019 <sup>(h)(i)</sup>	999,860
			5,000,000	1.803%, 12/11/2019 <sup>(h)(i)</sup>	4,996,950

The accompanying notes are an integral part of the financial statements.

# THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued)  
November 30, 2019

<u>Principal</u>		<u>Value</u>	<u>Principal</u>		<u>Value</u>
	<b>COMMERCIAL PAPER</b>			<b>COMMERCIAL PAPER</b>	
	(CONTINUED) — 80.5%			(CONTINUED) — 80.5%	
	<b>DIVERSIFIED TELECOMMUNICATIONS (continued)</b>			<b>OIL &amp; GAS STORAGE &amp; TRANSPORTATION — 5.6%</b>	
\$7,000,000	TELUS Corp.		\$5,000,000	Energy Transfer Operating LP	
	1.804%, 12/17/2019 <sup>(h)(i)</sup>	\$ 6,993,665		2.051%, 12/04/2019 <sup>(h)(i)</sup>	\$ 4,998,165
		<u>12,990,475</u>	5,000,000	Enterprise Products Partners LP	
				1.801%, 12/02/2019 <sup>(h)(i)</sup>	<u>4,999,267</u>
	<b>ENERGY — 2.8%</b>				<u>9,997,432</u>
	Berkshire Hathaway Energy Co.			<b>OIL &amp; NATURAL GAS EXPLORATION — 2.8%</b>	
3,000,000	1.711%, 12/05/2019 <sup>(h)(i)</sup>	2,999,065	5,000,000	Canadian Natural Resources Ltd.	
2,000,000	1.712%, 12/11/2019 <sup>(h)(i)</sup>	1,998,767		1.841%, 12/11/2019 <sup>(h)(i)</sup>	<u>4,997,390</u>
		<u>4,997,832</u>		<b>PACKAGED FOODS — 8.4%</b>	
	<b>ENERGY SERVICES — 2.2%</b>			Campbell Soup Co.	
	Duke Energy Corp.		2,650,000	1.832%, 12/04/2019 <sup>(h)(i)</sup>	2,649,301
3,000,000	1.751%, 12/03/2019 <sup>(h)(i)</sup>	2,999,412	2,500,000	1.882%, 12/10/2019 <sup>(h)(i)</sup>	2,498,558
1,000,000	1.751%, 12/09/2019 <sup>(h)(i)</sup>	999,505		General Mills, Inc.	
		<u>3,998,917</u>	3,500,000	1.984%, 12/04/2019 <sup>(h)(i)</sup>	3,499,141
	<b>FOOD PRODUCTS — 2.8%</b>		1,500,000	1.771%, 12/13/2019 <sup>(h)(i)</sup>	1,498,952
	Mondelez International, Inc.		5,000,000	Tyson Foods, Inc.	
4,000,000	1.751%, 12/03/2019 <sup>(h)(i)</sup>	3,999,253		1.751%, 12/09/2019 <sup>(h)(i)</sup>	<u>4,997,375</u>
1,000,000	1.803%, 12/26/2019 <sup>(h)(i)</sup>	998,620			<u>15,143,327</u>
		<u>4,997,873</u>		<b>RAILROADS — 2.8%</b>	
	<b>GENERAL MERCHANDISE STORES — 2.8%</b>			Canadian Pacific Railway Ltd.	
	Dollar General Corp.		3,100,000	2.006%, 12/11/2019 <sup>(h)(i)</sup>	3,098,150
5,000,000	1.731%, 12/02/2019 <sup>(h)(i)</sup>	4,999,267	2,000,000	1.855%, 01/21/2020 <sup>(h)(i)</sup>	1,994,417
					<u>5,092,567</u>
	<b>HOTEL, RESORTS &amp; CRUISE LINES — 5.5%</b>			<b>RETAIL DRUG STORE — 2.8%</b>	
5,000,000	Marriott International, Inc.		5,000,000	Walgreens Boots Alliance, Inc.	
	1.856%, 01/24/2020 <sup>(h)(i)</sup>	4,985,207		2.079%, 02/12/2020 <sup>(h)(i)</sup>	<u>4,979,635</u>
5,000,000	Royal Caribbean Cruises Ltd.			<b>TECHNOLOGY HARDWARE &amp; EQUIPMENT — 2.8%</b>	
	2.004%, 12/27/2019 <sup>(h)(i)</sup>	4,992,833	5,000,000	Arrow Electronics, Inc.	
		<u>9,978,040</u>		1.800%, 12/02/2019 <sup>(h)(i)</sup>	<u>4,998,890</u>
	<b>MANAGED HEALTH CARE — 3.9%</b>			<b>WIRELESS COMMUNICATION SERVICES — 3.9%</b>	
7,000,000	Humana, Inc.			Bell Canada	
	2.059%, 01/15/2020 <sup>(h)(i)</sup>	6,980,900	2,000,000	1.886%, 01/03/2020 <sup>(h)(i)</sup>	1,996,341
	<b>MULTIMEDIA — 2.8%</b>		5,000,000	1.906%, 01/06/2020 <sup>(h)(i)</sup>	<u>4,990,030</u>
5,000,000	Viacom, Inc.				<u>6,986,371</u>
	1.831%, 12/06/2019 <sup>(h)(i)</sup>	4,998,276		<b>TOTAL COMMERCIAL PAPER</b>	
				(COST \$144,413,429)	<u>144,394,248</u>

The accompanying notes are an integral part of the financial statements.

# THE FAIRHOLME FOCUSED INCOME FUND

SCHEDULE OF INVESTMENTS (continued)  
November 30, 2019

<u>Principal</u>	<u>Value</u>		<u>Value</u>
		<b>TOTAL INVESTMENTS — 100.0%</b>	
		<b>(COST \$198,222,008)</b>	\$ 179,291,247
		<b>OTHER ASSETS IN</b>	
		<b>EXCESS OF</b>	
		<b>LIABILITIES — 0.0%</b>	59,822
		<b>NET ASSETS — 100.0%</b>	<u>\$ 179,351,069</u>
<b>U.S. GOVERNMENT</b>			
<b>OBLIGATIONS — 5.0%</b>			
U.S. Treasury Bills			
\$9,000,000 1.540%, 12/10/2019 <sup>(b)</sup>	\$ 8,996,830		
<b>TOTAL U.S. GOVERNMENT</b>			
<b>OBLIGATIONS</b>			
<b>(COST \$8,996,549)</b>	<u>8,996,830</u>		
<b>Shares</b>			
<b>MONEY MARKET</b>			
<b>FUNDS — 1.4%</b>			
2,413,600 Fidelity Investments Money			
Market Treasury Portfolio -			
Class I, 1.53% <sup>(i)</sup>	2,413,600		
<b>TOTAL MONEY MARKET FUNDS</b>			
<b>(COST \$2,413,600)</b>	<u>2,413,600</u>		

<sup>(a)</sup> Variable rate security. Rates shown are the effective rates as of November 30, 2019.

<sup>(b)</sup> Non-income producing security.

<sup>(c)</sup> Restricted security as set forth in Rule 144A under the Securities Act of 1933. The value of these investments totals \$104,481, which represents 0.06% of The Income Fund's net assets.

<sup>(d)</sup> Security is perpetual in nature and has no stated maturity date.

<sup>(e)</sup> Floating rate security. Rate shown is the effective rate as of November 30, 2019.

<sup>(f)</sup> Security is a fix-to-float security, which carries a fixed coupon until a certain date, upon which it switches to a floating rate. Rate shown is the fixed rate.

<sup>(g)</sup> Security in default and no interest was accrued as of November 30, 2019.

<sup>(h)</sup> Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.

<sup>(i)</sup> Restricted security as set forth in Rule 144(a) under the Securities Act of 1933. The value of these investments totals \$144,394,248, which represents 80.51% of The Income Fund's net assets.

<sup>(j)</sup> Annualized based on the 1-day yield as of November 30, 2019.

*The accompanying notes are an integral part of the financial statements.*

# THE FAIRHOLME FOCUSED INCOME FUND

## STATEMENT OF ASSETS & LIABILITIES November 30, 2019

### Assets

Investments, at Fair Value (Cost — \$198,222,008)	\$179,291,247
Interest Receivable	103,784
Receivable for Investments Sold	124,514
Total Assets	<u>179,519,545</u>

### Liabilities

Accrued Management Fees	118,476
Payable for Capital Shares Redeemed	50,000
Total Liabilities	<u>168,476</u>

### NET ASSETS

\$179,351,069

### Net Assets Consist of:

Paid-In Capital	\$203,668,681
Total Accumulated Losses	<u>(24,317,612)</u>

### NET ASSETS

\$179,351,069

Shares of Common Stock Outstanding\* (\$0.0001 par value) 17,529,966

Net Asset Value, Offering and Redemption Price Per Share  
(\$179,351,069 / 17,529,966 shares) \$ 10.23

\* 200,000,000 shares authorized in total.

*The accompanying notes are an integral part of the financial statements.*



# THE FAIRHOLME FOCUSED INCOME FUND

## STATEMENT OF OPERATIONS

	<b>For the Fiscal Year Ended November 30, 2019</b>
<b>Investment Income</b>	
Interest	\$ 5,769,326
Dividends	1,273,406
Total Investment Income	<u>7,042,732</u>
<b>Expenses</b>	
Management Fees	1,874,109
Legal Expenses	39,410
Total Expenses	<u>1,913,519</u>
Less: Voluntary Reduction of Management Fees	<u>(374,822)</u>
Net Expenses	<u>1,538,697</u>
Net Investment Income	<u>5,504,035</u>
<b>Realized and Unrealized Gain on Investments</b>	
Net Realized Gain on Investments	1,878,813
Net Change in Unrealized Appreciation (Depreciation) on Investments	<u>4,512,746</u>
Net Realized and Unrealized Gain on Investments	<u>6,391,559</u>
<b>NET INCREASE IN NET ASSETS FROM OPERATIONS</b>	<u><u>\$11,895,594</u></u>

*The accompanying notes are an integral part of the financial statements.*

# THE FAIRHOLME FOCUSED INCOME FUND

## STATEMENTS OF CHANGES IN NET ASSETS

	For the Fiscal Year Ended November 30, 2019	For the Fiscal Year Ended November 30, 2018
<b>CHANGES IN NET ASSETS</b>		
<b>From Operations</b>		
Net Investment Income	\$ 5,504,035	\$ 10,275,115
Net Realized Gain (Loss) on Investments	1,878,813	(7,956,448)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>4,512,746</u>	<u>(11,226,394)</u>
Net Increase (Decrease) in Net Assets from Operations	<u>11,895,594</u>	<u>(8,907,727)</u>
<b>From Dividends and Distributions to Shareholders</b>		
Net Decrease in Net Assets from Dividends and Distributions	<u>(5,286,649)</u>	<u>(20,470,612)</u>
<b>From Capital Share Transactions</b>		
Proceeds from Sale of Shares	9,617,338	82,350,172
Shares Issued in Reinvestment of Dividends and Distributions	4,659,430	18,536,050
Cost of Shares Redeemed	<u>(30,034,524)</u>	<u>(106,440,303)</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(15,757,756)</u>	<u>(5,554,081)</u>
<b>NET ASSETS</b>		
Net Decrease in Net Assets	(9,148,811)	(34,932,420)
Net Assets at Beginning of Year	<u>188,499,880</u>	<u>223,432,300</u>
Net Assets at End of Year	<u>\$179,351,069</u>	<u>\$ 188,499,880</u>
<b>SHARES TRANSACTIONS</b>		
Issued	939,727	7,580,742
Reinvested	451,601	1,734,291
Redeemed	<u>(2,932,519)</u>	<u>(9,968,013)</u>
Net Decrease in Shares	(1,541,191)	(652,980)
Shares Outstanding at Beginning of Year	<u>19,071,157</u>	<u>19,724,137</u>
Shares Outstanding at End of Year	<u>17,529,966</u>	<u>19,071,157</u>

*The accompanying notes are an integral part of the financial statements.*

# THE FAIRHOLME FOCUSED INCOME FUND

## FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30,				
	2019	2018	2017	2016	2015
<b>PER SHARE OPERATING PERFORMANCE</b>					
<b>NET ASSET VALUE, BEGINNING OF YEAR</b>	<u>\$9.88</u>	<u>\$11.33</u>	<u>\$12.38</u>	<u>\$10.72</u>	<u>\$10.82</u>
<b>Investment Operations</b>					
Net Investment Income <sup>(1)</sup>	0.30	0.49	0.60	0.57	0.45
Net Realized and Unrealized Gain (Loss) on Investments	<u>0.34</u>	<u>(0.91)</u>	<u>(0.99)</u>	<u>1.72</u>	<u>0.03</u>
Total from Investment Operations	<u>0.64</u>	<u>(0.42)</u>	<u>(0.39)</u>	<u>2.29</u>	<u>0.48</u>
<b>Dividends and Distributions</b>					
From Net Investment Income	(0.29)	(0.51)	(0.61)	(0.56)	(0.43)
From Realized Capital Gains	<u>—</u>	<u>(0.52)</u>	<u>(0.05)</u>	<u>(0.07)</u>	<u>(0.15)</u>
Total Dividends and Distributions	<u>(0.29)</u>	<u>(1.03)</u>	<u>(0.66)</u>	<u>(0.63)</u>	<u>(0.58)</u>
<b>NET ASSET VALUE, END OF YEAR</b>	<u>\$10.23</u>	<u>\$9.88</u>	<u>\$11.33</u>	<u>\$12.38</u>	<u>\$10.72</u>
<b>TOTAL RETURN</b>	6.49%	(4.19)%	(3.35)%	22.77%	4.60%
<b>Ratio/Supplemental Data</b>					
Net Assets, End of Year (in 000's)	\$179,351	\$188,500	\$223,432	\$240,195	\$243,072
Ratio of Gross Expenses to Average Net Assets:	1.02% <sup>(2)</sup>	1.00%	1.00%	1.00%	1.00%
Ratio of Net Expenses to Average Net Assets	0.82% <sup>(2)(3)</sup>	0.82% <sup>(3)</sup>	1.00%	1.00%	1.00%
Ratio of Net Investment Income to Average Net Assets	2.94%	4.56%	5.02%	5.48%	4.14%
Portfolio Turnover Rate	16.70%	45.78%	36.05%	28.81%	67.05%

<sup>(1)</sup> Based on average shares outstanding.

<sup>(2)</sup> 0.02% is attributable to legal expenses incurred outside the management fee.

<sup>(3)</sup> Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Income Fund to the extent necessary to limit the management fee paid to the Manager by The Income Fund to an annual rate of 0.80% of the daily average net asset value of The Income Fund.

*The accompanying notes are an integral part of the financial statements.*

# THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS  
November 30, 2019

Shares	Value	Principal	Value
<b>DOMESTIC EQUITY SECURITIES — 10.9%</b>		<b>COMMERCIAL PAPER — 58.8%</b>	
<b>REAL ESTATE MANAGEMENT &amp; DEVELOPMENT — 10.9%</b>		<b>APPAREL — 3.4%</b>	
348,267	The St. Joe Co. <sup>(a)(b)</sup>	\$ 2,000,000	VF Corp. 1.651%, 12/09/2019 <sup>(d)(e)</sup>
	\$ 6,404,630		\$ 1,998,992
<b>TOTAL DOMESTIC EQUITY SECURITIES (COST \$6,615,792)</b>			
	<u>6,404,630</u>		
<b>FOREIGN EQUITY SECURITIES — 4.7%</b>		<b>AUTO MANUFACTURERS — 3.4%</b>	
<b>CANADA — 4.7%</b>		2,000,000	Ford Motor Credit Co. 2.358%, 01/03/2020 <sup>(d)(e)</sup>
<b>METALS &amp; MINING — 4.7%</b>			<u>1,994,931</u>
2,192,841	Imperial Metals Corp. <sup>(a)</sup>	2,000,000	Anheuser-Busch Inbev NV 1.732%, 12/09/2019 <sup>(d)(e)</sup>
	2,806,467	2,000,000	Constellation Brands, Inc. 2.007%, 01/24/2020 <sup>(d)(e)</sup>
<b>TOTAL FOREIGN EQUITY SECURITIES (COST \$25,958,539)</b>			<u>1,991,827</u>
	<u>2,806,467</u>		<u>3,990,858</u>
<b>DOMESTIC PREFERRED EQUITY SECURITIES — 16.9%</b>		<b>CHEMICALS — 4.2%</b>	
<b>MORTGAGE FINANCE — 15.7%</b>		2,500,000	Albemarle Corp. 1.853%, 12/04/2019 <sup>(d)(e)</sup>
444,095	Federal Home Loan Mortgage Corp. 7.875%, Series Z <sup>(a)(c)</sup>		<u>2,499,310</u>
	4,662,998	2,000,000	Berkshire Hathaway Energy Co. 1.712%, 12/03/2019 <sup>(d)(e)</sup>
432,465	Federal National Mortgage Association 7.750%, Series S <sup>(a)(c)</sup>		<u>1,999,583</u>
	4,601,428	2,000,000	ENERGY SERVICES — 3.4% Duke Energy Corp. 1.751%, 12/03/2019 <sup>(d)(e)</sup>
	<u>9,264,426</u>		<u>1,999,608</u>
<b>OIL &amp; NATURAL GAS EXPLORATION — 1.2%</b>		<b>FOOD PRODUCTS — 3.4%</b>	
4,779	Chesapeake Energy Corp. 5.750%	2,000,000	Mondelez International, Inc. 1.792%, 12/10/2019 <sup>(d)(e)</sup>
	714,222		<u>1,998,926</u>
<b>TOTAL DOMESTIC PREFERRED EQUITY SECURITIES (COST \$6,422,016)</b>			
	<u>9,978,648</u>		
		<b>HOTEL, RESORTS &amp; CRUISE LINES — 2.9%</b>	
		1,700,000	Royal Caribbean Cruises Ltd. 1.951%, 12/03/2019 <sup>(d)(e)</sup>
			<u>1,699,660</u>
		<b>MANAGED HEALTH CARE — 4.2%</b>	
		2,500,000	Humana, Inc. 2.059%, 01/15/2020 <sup>(d)(e)</sup>
			<u>2,493,178</u>
		<b>MULTIMEDIA — 3.4%</b>	
		2,000,000	Viacom, Inc. 1.831%, 12/06/2019 <sup>(d)(e)</sup>
			<u>1,999,311</u>

The accompanying notes are an integral part of the financial statements.

# THE FAIRHOLME ALLOCATION FUND

SCHEDULE OF INVESTMENTS (continued)  
November 30, 2019

<u>Principal</u>	<u>Value</u>	<u>Principal</u>	<u>Value</u>
<b>COMMERCIAL PAPER (CONTINUED) — 58.8%</b>		<b>U.S. GOVERNMENT OBLIGATIONS — 5.1%</b>	
<b>OIL &amp; GAS STORAGE &amp; TRANSPORTATION — 3.4%</b>		\$3,000,000	U.S. Treasury Bills 1.536%, 12/10/2019 <sup>(e)</sup>
\$2,000,000	Energy Transfer Operating LP 2.051%, 12/04/2019 <sup>(d)(e)</sup>		\$ 2,998,943
	\$ 1,999,266	<b>TOTAL U.S. GOVERNMENT OBLIGATIONS (COST \$2,998,850)</b>	
<b>OIL &amp; NATURAL GAS EXPLORATION — 2.5%</b>			<u>2,998,943</u>
1,500,000	Canadian Natural Resources Ltd. 1.841%, 12/11/2019 <sup>(d)(e)</sup>	<u>Shares</u>	
	1,499,217	<b>MONEY MARKET FUNDS — 3.6%</b>	
<b>PACKAGED FOODS — 11.0%</b>		2,152,344	Fidelity Investments Money Market Treasury Portfolio - Class I, 1.53% <sup>(f)</sup>
2,500,000	Campbell Soup Co. 2.156%, 12/09/2019 <sup>(d)(e)</sup>		<u>2,152,344</u>
2,000,000	General Mills, Inc. 1.771%, 12/13/2019 <sup>(d)(e)</sup>	<b>TOTAL MONEY MARKET FUNDS (COST \$2,152,344)</b>	
	1,998,602		<u>2,152,344</u>
1,000,000	Tyson Foods, Inc. 1.752%, 12/06/2019 <sup>(d)(e)</sup>	<b>TOTAL INVESTMENTS — 100.0%</b>	
1,000,000	1.782%, 12/16/2019 <sup>(d)(e)</sup>		59,004,844
	999,631	<b>LIABILITIES IN EXCESS OF OTHER ASSETS — 0.0%</b>	
	999,114		<u>(21,717)</u>
	<u>6,496,035</u>	<b>NET ASSETS — 100.0%</b>	<u>\$ 58,983,127</u>
<b>RETAIL DRUG STORE — 3.4%</b>			
2,000,000	Walgreens Boots Alliance, Inc. 2.025%, 01/13/2020 <sup>(d)(e)</sup>		
	1,994,937		
<b>TOTAL COMMERCIAL PAPER (COST \$34,670,133)</b>			
	<u>34,663,812</u>		

<sup>(a)</sup> Non-income producing security.

<sup>(b)</sup> Restricted/controlled security. The value of this security totals \$6,404,630, which represents 10.86% of The Allocation Fund's net assets. Information related to this security is as follows:

<u>Shares</u>	<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Acquisition Cost</u>	<u>11/30/2019 Carrying Value Per Unit</u>
348,267	The St. Joe Co.	08/09/2017-09/01/2017	\$6,615,792	\$18.39

<sup>(c)</sup> Variable rate security. Rates shown are the effective rates as of November 30, 2019.

<sup>(d)</sup> Restricted security as set forth in Rule 144(a) under the Securities Act of 1933. The value of these investments totals \$34,663,812, which represents 58.77% of The Allocation Fund's net assets.

<sup>(e)</sup> Rates shown are the effective yields based on the purchase price. The calculation assumes the security is held to maturity.

<sup>(f)</sup> Annualized based on the 1-day yield as of November 30, 2019.

The accompanying notes are an integral part of the financial statements.

# THE FAIRHOLME ALLOCATION FUND

## STATEMENT OF ASSETS & LIABILITIES November 30, 2019

<b>Assets</b>	
Investments, at Fair Value (Cost — \$78,817,674)	\$ 59,004,844
Interest Receivable	17,383
Total Assets	<u>59,022,227</u>
<b>Liabilities</b>	
Accrued Management Fees	39,100
Total Liabilities	<u>39,100</u>
<b>NET ASSETS</b>	<u>\$ 58,983,127</u>
<b>Net Assets Consist of:</b>	
Paid-In Capital	\$126,234,356
Total Accumulated Losses	<u>(67,251,229)</u>
<b>NET ASSETS</b>	<u>\$ 58,983,127</u>
Shares of Common Stock Outstanding* (\$0.0001 par value)	<u>8,423,476</u>
Net Asset Value, Offering and Redemption Price Per Share (\$58,983,127 / 8,423,476 shares)	<u>\$ 7.00</u>

\* 200,000,000 shares authorized in total.

*The accompanying notes are an integral part of the financial statements.*

# THE FAIRHOLME ALLOCATION FUND

## STATEMENT OF OPERATIONS

	<b>For the Fiscal Year Ended November 30, 2019</b>
<b>Investment Income</b>	
Interest	\$1,168,430
Dividends	298,741
Total Investment Income	<u>1,467,171</u>
<b>Expenses</b>	
Management Fees	721,273
Legal Expenses	15,218
Total Expenses	<u>736,491</u>
Less: Voluntary Reduction of Management Fees	<u>(144,255)</u>
Net Expenses	<u>592,236</u>
Net Investment Income	<u>874,935</u>
<b>Realized and Unrealized Gain on Investments, Redemption In-Kind and Foreign Currency Related Transactions</b>	
Net Realized Gain on Investments and Foreign Currency Related Transactions	363,076
Net Realized Gain on Redemption In-Kind	1,061,539
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Transactions	<u>3,765,875</u>
Net Realized and Unrealized Gain on Investments, Redemption In-Kind and Foreign Currency Related Transactions	<u>5,190,490</u>
<b>NET INCREASE IN NET ASSETS FROM OPERATIONS</b>	<u><u>\$6,065,425</u></u>

*The accompanying notes are an integral part of the financial statements.*

# THE FAIRHOLME ALLOCATION FUND

## STATEMENTS OF CHANGES IN NET ASSETS

	For the Fiscal Year Ended November 30, 2019	For the Fiscal Year Ended November 30, 2018
<b>CHANGES IN NET ASSETS</b>		
<b>From Operations</b>		
Net Investment Income	\$ 874,935	\$ 1,223,907
Net Realized Gain (Loss) on Investments, Redemption In-Kind and Foreign Currency Related Transactions	1,424,615	(48,412,833)
Net Change in Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Related Translations	<u>3,765,875</u>	<u>38,497,966</u>
Net Increase (Decrease) in Net Assets from Operations	<u>6,065,425</u>	<u>(8,690,960)</u>
<b>From Dividends and Distributions to Shareholders</b>		
Net Decrease in Net Assets from Dividends and Distributions	<u>(791,785)</u>	<u>(1,817,020)</u>
<b>From Capital Share Transactions</b>		
Proceeds from Sale of Shares	1,417,681	1,433,796
Shares Issued in Reinvestment of Dividends and Distributions	757,745	1,779,557
Redemption Fees	2,187	285
Cost of Shares Redeemed	(16,966,140)	(34,508,769)
Cost of Shares Redeemed In-Kind	<u>(3,889,024)</u>	<u>—</u>
Net Decrease in Net Assets from Shareholder Activity	<u>(18,677,551)</u>	<u>(31,295,131)</u>
<b>NET ASSETS</b>		
Net Decrease in Net Assets	(13,403,911)	(41,803,111)
Net Assets at Beginning of Year	<u>72,387,038</u>	<u>114,190,149</u>
Net Assets at End of Year	<u>\$ 58,983,127</u>	<u>\$ 72,387,038</u>
<b>SHARES TRANSACTIONS</b>		
Issued	202,579	197,013
Reinvested	118,029	234,152
Redeemed	(2,229,510)	(4,778,281)
Redeemed In-Kind	<u>(675,384)</u>	<u>—</u>
Net Decrease in Shares	(2,584,286)	(4,347,116)
Shares Outstanding at Beginning of Year	<u>11,007,762</u>	<u>15,354,878</u>
Shares Outstanding at End of Year	<u>8,423,476</u>	<u>11,007,762</u>

The accompanying notes are an integral part of the financial statements.



# THE FAIRHOLME ALLOCATION FUND

## FINANCIAL HIGHLIGHTS

	For the Fiscal Year Ended November 30,				
	2019	2018	2017	2016	2015
<b>PER SHARE OPERATING PERFORMANCE</b>					
<b>NET ASSET VALUE, BEGINNING OF YEAR</b>	\$6.58	\$7.44	\$9.65	\$10.40	\$12.57
<b>Investment Operations</b>					
Net Investment Income <sup>(1)</sup>	0.09	0.09	0.10	0.14	0.35
Net Realized and Unrealized Gain (Loss) on Investments	0.40	(0.83)	(1.71)	0.75	(1.38)
Total from Investment Operations	0.49	(0.74)	(1.61)	0.89	(1.03)
<b>Dividends and Distributions</b>					
From Net Investment Income	(0.07)	(0.12)	(0.17)	(0.31)	—
From Realized Capital Gains	—	—	(0.43)	(1.33)	(1.14)
Total Dividends and Distributions	(0.07)	(0.12)	(0.60)	(1.64)	(1.14)
<b>Redemption Fees<sup>(1)</sup></b>	0.00 <sup>(2)</sup>	0.00 <sup>(2)</sup>	0.00 <sup>(2)</sup>	0.00 <sup>(2)</sup>	0.00 <sup>(2)</sup>
<b>NET ASSET VALUE, END OF YEAR</b>	\$7.00	\$6.58	\$7.44	\$9.65	\$10.40
<b>TOTAL RETURN</b>	7.61%	(10.18)%	(17.59)%	11.06%	(8.88)%
<b>Ratio/Supplemental Data</b>					
Net Assets, End of Year (in 000's)	\$58,983	\$72,387	\$114,190	\$259,501	\$297,527
Ratio of Gross Expenses to Average Net Assets:	1.02% <sup>(3)</sup>	1.00%	1.00%	1.00%	1.00%
Ratio of Net Expenses to Average Net Assets	0.82% <sup>(3)(4)</sup>	0.82% <sup>(4)</sup>	1.00%	1.00%	1.00%
Ratio of Net Investment Income (Loss) to Average Net Assets	1.21%	1.32%	1.19%	1.81%	3.09%
Portfolio Turnover Rate	15.58%	23.52%	31.01%	13.65%	39.24%

<sup>(1)</sup> Based on average shares outstanding.

<sup>(2)</sup> Redemption fees represent less than \$0.01.

<sup>(3)</sup> 0.02% is attributable to legal expenses incurred outside the management fee.

<sup>(4)</sup> Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fee of The Allocation Fund to the extent necessary to limit the management fee paid to the Manager by The Allocation Fund to an annual rate of 0.80% of the daily average net asset value of The Allocation Fund.

The accompanying notes are an integral part of the financial statements.

**Note 1. Organization**

Fairholme Funds, Inc. (the “Company”), a Maryland corporation, is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company. The Company’s Articles of Incorporation permit the Board of Directors of the Company (the “Board” or the “Directors”) to issue 1,100,000,000 shares of common stock at \$.0001 par value. 700,000,000 shares have been allocated to The Fairholme Fund (“The Fairholme Fund”), 200,000,000 shares have been allocated to The Fairholme Focused Income Fund (“The Income Fund”), and 200,000,000 shares have been allocated to The Fairholme Allocation Fund (“The Allocation Fund”). The Fairholme Fund, The Income Fund, and The Allocation Fund (each a “Fund” and collectively the “Funds”) are non-diversified funds. The Funds may have a greater percentage of their assets invested in particular securities than a diversified fund, exposing the Funds to the risk of unanticipated industry conditions as well as risks specific to a single company or the securities of a single company. Each Fund has different objectives, capitalizations, and considerations that may or may not lead to differing compositions of issuers, securities within an issuer, and cash levels within each Fund. The Board has the power to designate one or more separate and distinct series and/or classes of shares of common stock and to classify or reclassify any unissued shares with respect to such series.

The Fairholme Fund’s investment objective is to provide long-term growth of capital. Under normal circumstances, The Fairholme Fund seeks to achieve its investment objective by investing in a focused portfolio of equity and fixed-income securities. The proportion of The Fairholme Fund’s assets invested in each type of asset class will vary from time to time based upon Fairholme Capital Management, L.L.C.’s (the “Manager”) assessment of general market and economic conditions. The Fairholme Fund may invest in, and may shift frequently among, the asset classes and market sectors. The equity securities in which The Fairholme Fund may invest include common and preferred stock (including convertible preferred stock), partnership interests, business trust shares, interests in real estate investment trusts (“REITs”), rights and warrants to subscribe for the purchase of equity securities, and depository receipts. The Fairholme Fund may invest in equity securities without regard to the jurisdictions in which the issuers of the securities are organized or situated and without regard to the market capitalizations or sectors of such issuers. The fixed-income securities in which The Fairholme Fund may invest include U.S. corporate debt securities, non-U.S. corporate debt securities, bank debt (including bank loans and participations), U.S. government and agency debt securities (including U.S. Treasury bills), short-term debt obligations of foreign governments, and foreign money market instruments. Except for its investments in short-term debt obligations of foreign governments, The Fairholme Fund may invest in fixed-income securities regardless of maturity or the rating of the issuer of the security. The Fairholme Fund may also invest in “special situations” to achieve its objective. “Special situation” investments may include equity securities or fixed-income securities, such as corporate debt, which may be in a distressed position as a result of economic or company specific developments. Although The Fairholme Fund normally holds a focused portfolio of equity and fixed-income securities, The Fairholme Fund is not required to be fully invested in such securities and may maintain a significant portion of its total assets in cash and securities generally considered to be cash equivalents. The Manager serves as investment adviser to The Fairholme Fund.

The Income Fund’s investment objective is to seek current income. Under normal circumstances, The Income Fund seeks to achieve its investment objective by investing in a focused portfolio of cash distributing securities. To maintain maximum flexibility, the securities in which The Income Fund may invest include corporate bonds and other corporate debt securities of issuers in the U.S. and foreign countries, bank debt (including bank loans and loan participations), government and agency debt securities of the U.S. and foreign countries (including U.S. Treasury bills), convertible bonds and other convertible securities, and equity securities, including preferred and common stock and interests in REITs. Although The Income Fund normally holds a focused portfolio of securities, The Income Fund is not required to be fully invested in such securities and may maintain a significant portion of its total assets in cash and securities generally considered to be cash equivalents. The Manager serves as investment adviser to The Income Fund.

The Allocation Fund’s investment objective is to seek long-term total return. Under normal circumstances, The Allocation Fund seeks to achieve its investment objective by investing opportunistically in a focused portfolio of investments in the equity, fixed-income and cash, and cash-equivalent asset classes. The proportion of The Allocation Fund’s portfolio invested

in each asset class will vary from time to time based on the Manager's assessment of relative fundamental values of securities and other investments in the asset class, the attractiveness of investment opportunities within each asset class, general market and economic conditions, and expected future returns of other investment opportunities. The Allocation Fund seeks to capitalize on anticipated fluctuations in the financial markets by changing the mix of its holdings in the targeted asset classes. The Allocation Fund may maintain a significant portion of its assets in cash and cash-equivalent securities and investments. The Manager serves as investment adviser to The Allocation Fund.

There is no guarantee that the Funds will meet their respective objectives.

**Note 2. Significant Accounting Policies**

As investment companies, the Funds follow the investment company accounting and reporting guidance, which is part of U.S. generally accepted accounting principles ("U.S. GAAP"). The Funds' investments are reported at fair value as defined by U.S. GAAP. The Funds calculate their net asset values as soon as practicable following the close of regular trading on the New York Stock Exchange (currently 4:00 p.m. Eastern Time) on each day the New York Stock Exchange is open.

**New Accounting Pronouncements:** To improve the effectiveness of fair value disclosure requirements, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) 2018-13, Fair Value Measurement Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which adds, removes, and modifies certain aspects relating to fair value disclosure. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption of the additions relating to ASU 2018-13 is not required, even if early adoption is elected for the removals and modifications under ASU 2018-13. Management has early adopted the removals and modifications set forth in ASU 2018-13 in these financial statements and has not early adopted the additions set forth in ASU 2018-13.

A description of the valuation techniques applied to the Funds' securities measured at fair value on a recurring basis follows:

*Security Valuation:*

Equity securities (common and preferred stocks): Securities traded on a national securities exchange or reported on the NASDAQ national market are generally valued at the official closing price, or at the last reported sale price on the exchange or market on which the securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. To the extent these securities are actively traded and valuation adjustments are not applied, they are classified in Level 1 of the fair value hierarchy. If these securities are not actively traded, they are classified in Level 2. Subject to the oversight of the Board, the Manager may determine the fair valuation of a security when market quotations are insufficient or not readily available, when securities are determined to be illiquid or restricted, or when in the judgment of the Manager the prices or values available do not represent the fair value of the instrument. In these situations, if the inputs are observable, the valuation will be classified in Level 2 of the fair value hierarchy, otherwise they would be classified in Level 3.

Fixed-income securities (U.S. government obligations, corporate bonds, convertible bonds, and asset backed securities): The fair value of fixed-income securities is determined using market quotations when readily available, but may also be estimated by various methods when no such market quotations exist and when the Manager believes these other methods reflect the fair value of such securities. These methods may consider recently executed transactions in securities of the issuer or comparable issuers and market price valuations from independent pricing services and/or brokers (where observable). Where the Manager deems it appropriate to do so (such as when independent prices are unavailable or not deemed to be representative of fair value) fixed income securities will be fair valued in good faith following consideration by, and conclusion of, the Manager's Valuation and Liquidity Risk Management Committee. As of November 30, 2019, fixed-income securities are valued by the Manager utilizing observable market prices on the day of valuation or the average bid of independent broker/dealer quotes and/or the average of valuations from independent pricing services. Although fixed-income securities are classified in Level 2 of the fair value hierarchy at November 30, 2019, in instances where significant unobservable inputs are used, they would be classified in Level 3.

Open-end mutual funds: Investments in open-end mutual funds including money market funds are valued at their closing net asset value each business day and are classified in Level 1 of the fair value hierarchy.

Short-term securities: Investments in securities with maturities of less than sixty days when acquired, or which subsequently are within sixty days of maturity, shall be valued at prices supplied by an independent pricing source or by one of the Funds' pricing agents based on broker or dealer supplied valuations or matrix pricing. To the extent the inputs are observable and timely, the values would be classified in Level 2 of the fair value hierarchy.

Restricted securities: The Manager is deemed to be an affiliate of The St. Joe Co. ("Joe") for purposes of the Securities Act of 1933 and Rule 144. This determination was made based on a number of factors, including the collective ownership of Joe by certain of the Funds and other advisory clients advised by the Manager. Shares of Joe owned by The Allocation Fund are considered control securities under Rule 144 and are treated as restricted securities for purposes of The Allocation Fund's valuation procedures. Due to the restrictions on resale, the securities are generally valued at a discount to similar publicly traded securities. Depending on the relative significance of valuation inputs, these instruments may be classified in either Level 2 or Level 3 of the fair value hierarchy. Joe was classified as Level 2 at November 30, 2019.

Warrants: The Funds may invest in warrants, which may be acquired either through a direct purchase, included as part of a private placement, or pursuant to corporate actions. Warrants entitle, but do not obligate, the holder to buy equity securities at a specific price for a specific period of time. Warrants may be considered more speculative than certain other types of investments in that they do not entitle a holder to dividends or voting rights with respect to the underlying securities that may be purchased nor do they represent any rights in the assets of the issuing company. Also, the value of a warrant does not necessarily change with the value of the underlying securities and a warrant ceases to have value if it is not exercised prior to its expiration date. Warrants traded on a security exchange are valued at the official closing price on the valuation date and are classified as Level 1 of the fair value hierarchy. Over the counter (OTC) warrants are valued using simulation models utilizing market value of the underlying security, expiration date of the warrants, volatility of the underlying security, strike price of the warrants, risk-free interest rate at the valuation date, and are classified as Level 2 or Level 3 of the fair value hierarchy depending on the observability of the inputs used.

The Funds use several recognized industry third-party pricing services (TPPS) - approved by the Board and unaffiliated with the Manager - to provide prices for some of the Funds' securities. The Funds also use other independent market trade data sources (such as TRACE, the FINRA developed mandatory reporting of over-the-counter secondary market transactions), as well as broker quotes provided by market makers. The data within these feeds is ultimately sourced from major stock exchanges and trading systems where these securities trade. If a price obtained from the pricing source is deemed unreliable, it may be discarded and/or challenged. In these cases the pricing decision is made by reference to the reliable market data from the other market data sources.

Subject to the oversight of the Board, the Manager may determine the fair valuation of a security when market quotations are insufficient or not readily available, when securities are determined to be illiquid or restricted, or when in the judgment of the Manager the prices or values available do not represent the fair value of the instrument. Factors which may cause the Manager to make such a judgment include the following: (a) only a bid price or an asked price is available; (b) the spread between bid and asked prices is substantial; (c) the liquidity of the securities; (d) the frequency of sales; (e) the thinness of the market; (f) the size of reported trades; (g) actions of the securities markets, such as the suspension or limitation of trading; and (h) local market closures. Among the factors to be considered to fair value a security are recent prices of comparable securities that are publicly traded, reliable prices of securities not publicly traded, the use of valuation models, current analyst reports, valuing the income or cash flow of the issuer, or cost if the preceding factors do not apply. The circumstances of fair valued securities are frequently monitored to determine if fair valuation measures continue to apply.

The Manager reports quarterly to the Board the results of the application of fair valuation policies and procedures.

# FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)  
November 30, 2019

The inputs and valuation techniques used to measure fair value of the Funds' investments are summarized into three levels as described in the hierarchy below:

- Level 1 — quoted prices in active markets for identical securities;
- Level 2 — other significant observable inputs (including quoted prices for similar securities, quoted prices in inactive markets for identical securities, interest rates, prepayment speeds, credit risk, etc.); and
- Level 3 — significant unobservable inputs (including the Manager's determination as to the fair value of investments).

The inputs or methodology used for valuing investments are not necessarily an indication of the level of risk associated with investing in those investments. The summary of the Funds' investments by inputs used to value the Funds' investments as of November 30, 2019, is as follows:

	Valuation Inputs			Total Fair Value at 11/30/19
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	
<b>THE FAIRHOLME FUND</b>				
<b>ASSETS:</b>				
<b>INVESTMENTS (Fair Value):</b>				
Domestic Equity Securities*	\$423,217,557	\$ —	\$—	\$ 423,217,557
Foreign Equity Securities*	8,787,024	—	—	8,787,024
Domestic Preferred Equity Securities*	187,490,216	—	—	187,490,216
Domestic Corporate Bonds*	—	1,144,860	—	1,144,860
Commercial Paper*	—	376,420,433	—	376,420,433
U.S. Government Obligations	—	49,967,109	—	49,967,109
Money Market Funds	10,371,371	—	—	10,371,371
<b>TOTAL INVESTMENTS</b>	<u>\$629,866,168</u>	<u>\$427,532,402</u>	<u>\$—</u>	<u>\$1,057,398,570</u>

\* Industry classifications for these categories are detailed in the Schedule of Investments.

## THE INCOME FUND

### ASSETS:

#### INVESTMENTS (Fair Value):

Domestic Preferred Equity Securities				
Oil & Natural Gas Exploration	\$ 752,884	\$ 1,509,754	\$—	\$ 2,262,638
Other Industries*	10,721,049	—	—	10,721,049
Domestic Corporate Bonds*	—	10,502,882	—	10,502,882
Commercial Paper*	—	144,394,248	—	144,394,248
U.S. Government Obligations	—	8,996,830	—	8,996,830
Money Market Funds	2,413,600	—	—	2,413,600
<b>TOTAL INVESTMENTS</b>	<u>\$ 13,887,533</u>	<u>\$165,403,714</u>	<u>\$—</u>	<u>\$ 179,291,247</u>

\* Industry classifications for these categories are detailed in the Schedule of Investments.

# FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)  
November 30, 2019

	Valuation Inputs			Total Fair Value at 11/30/19
	Level 1 – Quoted Prices	Level 2 – Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	
<b>THE ALLOCATION FUND</b>				
<b>ASSETS:</b>				
<b>INVESTMENTS (Fair Value):</b>				
Domestic Equity Securities				
Real Estate Management & Development	\$ —	\$ 6,404,630	\$—	\$ 6,404,630
Foreign Equity Securities*	2,806,467	—	—	2,806,467
Domestic Preferred Equity Securities				
Mortgage Finance	9,264,426	—	—	9,264,426
Oil & Natural Gas Exploration	—	714,222	—	714,222
Commercial Paper*	—	34,663,812	—	34,663,812
U.S. Government Obligations	—	2,998,943	—	2,998,943
Money Market Funds	2,152,344	—	—	2,152,344
<b>TOTAL INVESTMENTS</b>	<u>\$14,223,237</u>	<u>\$44,781,607</u>	<u>\$—</u>	<u>\$59,004,844</u>

\* Industry classifications for these categories are detailed in the Schedule of Investments.

There were no Level 3 investments for any of the Funds at November 30, 2019.

*Dividends and Distributions:* Each Fund records dividends and distributions to its shareholders on the ex-dividend date. The Fairholme Fund and The Allocation Fund intend to distribute substantially all of their net investment income (if any) as dividends to their respective shareholders on an annual basis in December. The Income Fund intends to declare and pay net investment income distributions, if any, quarterly in March, June, September, and December. The Funds intend to distribute any net long-term capital gains and any net short-term capital gains at least once a year. If the total dividends and distributions made in any tax year exceeds net investment income and accumulated realized capital gains, a portion of the total distribution may be treated as a tax return of capital.

*Foreign Currency Translation:* The books and records of the Funds are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis: (i) fair value of investment securities, assets, and liabilities at the current rate of exchange; and (ii) purchases and sales of investment securities, income, and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions. The Funds do not isolate that portion of gains and losses on investment securities which is due to changes in the foreign exchange rates from that which is due to changes in the market prices of such securities.

*Estimates:* The preparation of financial statements in conformity with U.S. GAAP requires the Funds to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reported period. Actual results could differ from those estimates.

*Redemption Fee:* The Fairholme Fund and The Allocation Fund assess a 2% fee on the proceeds of The Fairholme Fund and The Allocation Fund shares that are redeemed or exchanged within 60 days of their purchase. The redemption fee is paid to The Fairholme Fund and The Allocation Fund, as applicable, for the benefit of remaining shareholders and is recorded as paid-in capital. The redemption fees retained by The Fairholme Fund and The Allocation Fund during the fiscal years ended November 30, 2019 and 2018, amounted to \$37,027 and \$33,620, and \$2,187 and \$285, respectively.

During the year ended November 30, 2019, The Fairholme Fund and The Fairholme Allocation Fund delivered portfolio securities and cash in exchange for shares redeemed by shareholders in in-kind redemptions. For financial reporting purposes, the Fund recognized a net gain on the transfer of securities; however, for tax purposes the transaction was treated as a tax free exchange and the gain has been reclassified from undistributed realized gain (loss) to paid-in capital. The Fairholme Fund and The Fairholme Allocation Fund realized \$1,334,463 and \$1,061,539 of net gains attributable to the in-kind redemption, respectively.

*Other:* The Funds account for security transactions on the trade date for financial statement purposes. The specific identification method is used for determining gains or losses for financial statements and income tax purposes. Dividend income is recorded on the ex-dividend date net of foreign taxes withheld where recovery is uncertain and interest income is recorded on an accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities using the effective yield method. Securities denominated in currencies other than U.S. dollars are subject to changes in value due to fluctuation in exchange rates. The Funds may invest in countries that require governmental approval for the repatriation of investment income, capital, or the proceeds of sales of securities by foreign investors. In addition, if there is deterioration in a country's balance of payments or for other reasons, a country may impose temporary restrictions on foreign capital remittances abroad.

The Funds paid commissions and other brokerage fees during the period. The Funds also paid legal expenses in connection with certain of their investments.

**Note 3. Related Party Transactions**

The Manager is a Delaware limited liability company and is registered with the SEC as an investment adviser. The Manager's principal business is to provide investment management and advisory services to individuals, corporations, and other institutions throughout the world. Pursuant to an Investment Management Agreement, each Fund pays a management fee to the Manager for its provision of investment advisory and operating services to the Fund. Subject to applicable waivers or limitations, the management fee is paid at an annual rate equal to 1.00% of the daily average net assets of each Fund. Effective January 1, 2018, the Manager has agreed to waive, on a voluntary basis, a portion of the management fees of The Fairholme Fund, The Income Fund, and The Allocation Fund to the extent necessary to limit the management fee of each Fund to the annual rate of 0.80% of that Fund's daily average net asset value ("Undertaking"). This Undertaking may be terminated by the Manager upon 60 days' written notice to the applicable Fund. The Manager is responsible pursuant to the Investment Management Agreement for paying each Fund's expenses for the following services: transfer agency, fund accounting, fund administration, custody, legal, audit, compliance, directors' fees, call center, fulfillment, travel, insurance, rent, printing, postage and other office supplies. The Manager is not responsible for paying for the following costs and expenses of each Fund: commissions, brokerage fees, issue and transfer taxes, and other costs chargeable to the Fund in connection with securities transactions or in connection with securities owned by each Fund, taxes, interest, acquired fund fees and related expenses, expenses in connection with litigation by or against each Fund, and any other extraordinary expenses.

The Manager earned, after the voluntary reduction of the management fees, \$8,752,588, \$1,499,287, and \$577,018, from The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, for its services during the fiscal year ended November 30, 2019.

Bruce Berkowitz, both the Chief Investment Officer of the Manager and Chairman of the Funds' Board, and his affiliates beneficially own an aggregate 10,784,408 shares, 6,691,382 shares, and 4,382,931 shares of The Fairholme Fund, The Income Fund, and The Allocation Fund, respectively, at November 30, 2019.

A Director and Officers of the Funds are also Officers of the Manager or its affiliates.

**Note 4. Investments**

For the fiscal year ended November 30, 2019, aggregated purchases and sales of investment securities other than short-term investments, redemptions in-kind of Fund shares and U.S. government obligations were as follows:

# FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)  
November 30, 2019

	<u>Purchases</u>	<u>Sales</u>
The Fairholme Fund	\$54,775,873	\$206,839,163
The Income Fund	9,254,225	62,819,267
The Allocation Fund	3,879,690	8,562,546

## Note 5. Tax Matters

*Federal Income Taxes:* Each Fund intends to qualify each year as a “regulated investment company” under Subchapter M of the Internal Revenue Code of 1986, as amended. By so qualifying, each Fund will not be subject to federal income taxes to the extent that it distributes all of its net investment income and any realized capital gains.

For U.S. federal income tax purposes, the cost of securities owned, gross unrealized appreciation, gross unrealized depreciation, and net unrealized depreciation of investments at November 30, 2019, were as follows:

	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Net Unrealized Depreciation</u>
The Fairholme Fund	\$1,271,004,168	\$112,207,788	\$(325,813,386)	\$(213,605,598)
The Income Fund	198,231,032	4,494,780	(23,434,565)	(18,939,785)
The Allocation Fund	78,838,838	5,537,669	(25,371,663)	(19,833,994)

The difference between book basis and tax basis for The Fairholme Fund’s net unrealized depreciation is attributable to the tax deferral of losses on wash sales and capitalized cost. The difference between book basis and tax basis for The Income Fund’s and The Allocation Fund’s net unrealized depreciation is attributable to capitalized cost.

The Funds’ tax basis capital gains are determined only at the end of each fiscal year. As of November 30, 2019 the components of distributable earnings on a tax basis were as follows:

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Undistributed Ordinary Income	\$ 9,052,579	\$ 619,274	\$ 796,310
Capital Loss carryforwards	(747,040,928)	(5,997,101)	(48,213,545)
Net Unrealized Appreciation/(Depreciation) on Investments and Foreign Currency Related Transactions	<u>(213,605,598)</u>	<u>(18,939,785)</u>	<u>(19,833,994)</u>
Total	<u><u>\$(951,593,947)</u></u>	<u><u>\$(24,317,612)</u></u>	<u><u>\$(67,251,229)</u></u>

The Funds are permitted to carry forward for an unlimited period capital losses incurred to reduce future required distributions of net capital gains to shareholders. Capital losses that are carried forward will retain their character as either short-term or long-term capital losses. As of November 30, 2019, net short-term and long-term capital loss carryforwards were as follows:

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Short-term capital loss carryforward	\$ 771,446	—	\$ 287,406
Long-term capital loss carryforward	746,269,482	\$5,997,101	47,926,139
Total	<u><u>\$747,040,928</u></u>	<u><u>\$5,997,101</u></u>	<u><u>\$48,213,545</u></u>

For the fiscal year ended November 30, 2019, The Fairholme Fund, The Income Fund, and The Allocation Fund utilized capital loss carryforwards of \$4,371,254, \$1,965,235, and \$450,101, respectively.

The Manager has analyzed the Funds’ tax positions taken on tax returns for all open tax years (current and prior three tax years) and has concluded that there are no uncertain tax positions that require recognition of a tax liability. The Funds’ federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired



# FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)  
November 30, 2019

(the current year and prior three years) are subject to examination by the Internal Revenue Service and state departments of revenue. Additionally, the Funds are not aware of any tax position for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

## Note 6. Dividends and Distributions to Shareholders

Ordinary income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from U.S. GAAP.

The tax character of dividends and distributions paid by each Fund were as follows:

	<u>The Fairholme Fund</u>	
	<u>For the Fiscal Year Ended November 30, 2019</u>	<u>For the Fiscal Year Ended November 30, 2018</u>
<b>Dividends and Distributions paid from:</b>		
Ordinary Income	<u>\$22,053,111*</u>	<u>\$24,854,774</u>

\* Total distributions paid differs from the Statement of Changes in Net Assets due to the utilization of equalization.

	<u>The Income Fund</u>	
	<u>For the Fiscal Year Ended November 30, 2019</u>	<u>For the Fiscal Year Ended November 30, 2018</u>
<b>Dividends and Distributions paid from:</b>		
Ordinary Income	\$5,286,649	\$11,237,769*
Long-Term Capital Gain	—	<u>9,232,843</u>
	<u>\$5,286,649</u>	<u>\$ 20,470,612</u>

\* Inclusive of short-term capital gains.

	<u>The Allocation Fund</u>	
	<u>For the Fiscal Year Ended November 30, 2019</u>	<u>For the Fiscal Year Ended November 30, 2018</u>
<b>Dividends and Distributions paid from:</b>		
Ordinary Income	<u>\$791,785</u>	<u>\$1,817,020</u>

The Funds declared and made payable the following distributions on December 13, 2019.

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
<b>Dividends and Distributions paid from:</b>			
Ordinary Income	\$9,053,098	\$792,040	\$820,275

## Note 7. Reclassification in the Capital Accounts

In accordance with U.S. GAAP, each Fund has recorded reclassifications in its capital account. These reclassifications have no impact on the net asset value of each Fund and are designed generally to present undistributed income and realized gains on a tax basis which is considered to be more informative to the shareholder. Permanent differences were primarily due to the

# FAIRHOLME FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS (continued)  
November 30, 2019

disallowance of certain non-tax deductible expenses for the Fund. As of November 30, 2019, each Fund recorded the following reclassifications to increase (decrease) the accounts listed below:

	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Total accumulated losses	\$(1,335,097)	\$0	\$(1,061,539)
Paid-in-Capital	1,335,097	0	1,061,539

## Note 8. Transactions in Shares of Affiliates

Portfolio companies in which The Fairholme Fund owns 5% or more of the outstanding voting securities of the issuer are considered affiliates of The Fairholme Fund. The aggregate fair value of all securities of affiliates held by The Fairholme Fund as of November 30, 2019 amounted to \$430,739,480, representing approximately 40.77% of The Fairholme Fund's net assets.

Transactions in The Fairholme Fund during the fiscal year ended November 30, 2019, in which the issuer of the security was an affiliate are as follows:

	<u>November 30, 2018</u>	<u>Gross Additions</u>	<u>Gross Deductions</u>	<u>November 30, 2019</u>		<u>Realized Gain (Loss)</u>	<u>Investment Income</u>	<u>Change in Unrealized Appreciation</u>
	<u>Shares/ Par Value</u>	<u>Shares/ Par Value</u>	<u>Shares/ Par Value</u>	<u>Shares/ Par Value</u>	<u>Fair Value</u>			
Imperial Metals Corp.	7,027,352	—	161,585	6,865,767	\$ 8,787,024	\$(708,075)	\$ —	\$ 3,374,605
The St. Joe Co.	22,730,687	—	522,663	22,208,024	421,952,456	1,021,231	—	89,101,843
Imperial Metals Corp. 7.000%, 09/15/2019 <sup>(a)</sup>	\$143,223,000	\$—	\$143,223,000	\$ —	—	1,335	7,897,101	42,598,704
Total					<u>\$430,739,480</u>	<u>\$ 314,491</u>	<u>\$7,897,101</u>	<u>\$135,075,152</u>

<sup>(a)</sup> Security was no longer held in the portfolio at November 30, 2019.

## Note 9. Indemnifications

Under the Company's organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the Funds. In the normal course of business the Company or the Funds enter into contracts that contain a variety of representations and customary indemnifications. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred. However, based on their experience to date, the Funds expect the risk of loss to be remote.

## Note 10. Subsequent Events

Management has evaluated the impact on the Funds of all subsequent events occurring through the date the financial statements were issued and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

## Note 11. Legal Proceedings

On April 17, 2019, Sears Holdings Corporation, Sears Roebuck and Co., Sears Development Co., Kmart Corporation and Kmart of Washington LLC commenced an adversary proceeding in the United States Bankruptcy Court for the Southern District of New York against Edward Scott "Eddie" Lampert; ESL Investments, Inc.; RBS Partners LP; CRK Partners LLC; SPE Master I L.P.; ESL Partners L.P.; SPE I Partners L.P.; RBS Investment Management LLC; ESL Institutional Partners L.P.; ESL Investors, L.L.C.; JPP LLC; JPP II LLC; Fairholme Capital Management, L.L.C.; Cesar L. Alvarez; Bruce Berkowitz; Alesia Haas; Kunal Kamlani; Steven Mnuchin; Thomas J. Tisch; Seritage Growth Properties, Inc.; Seritage Growth Properties, L.P.; Seritage KMT Mezzanine Finance LLC; Seritage SRC Mezzanine Finance LLC; Seritage KMT Finance LLC; Seritage SRC Finance LLC; Seritage GS Holdings LLC; Seritage SPS Holdings LLC; and Seritage MS Holdings LLC. On November 25, 2019, the plaintiffs filed an amended complaint, adding the Company and other parties not affiliated with the Manager or the Company as additional defendants and asserting new causes of action against the defendants.

Plaintiffs assert avoidance and other claims against certain defendants, including the Manager, for participation in two Sears corporate transactions: (i) the Lands' End spinoff; and (ii) the Seritage rights offering. The avoidance claims against the Manager include claims for the avoidance of consideration received by The Fairholme Fund and The Allocation Fund from Sears Holdings Corp. in connection with the Lands' End spinoff and Seritage rights offering that were allegedly actual and/or constructive fraudulent transfers. In the amended complaint, plaintiffs also assert avoidance and other claims seeking to recover amounts allegedly received by the Company from alleged related-party transactions with Sears and seek to avoid the release received by certain of the defendants, including the Manager and the Company, in connection with the Seritage derivative action. Plaintiffs also assert claims for breach of fiduciary duty and aiding and abetting breach of fiduciary duty arising out of certain related-party transactions against certain Defendants, including the Manager and Bruce Berkowitz, and seek to subordinate the bankruptcy claims of the Company, the Manager and Bruce Berkowitz.

Although the Manager and the Company believe that they have strong defenses to the foregoing complaint and intend to defend themselves vigorously against the allegations in the complaint, neither the Manager nor the Company is in a position to express an opinion about the ultimate outcome of the litigation or the range of potential loss, if any.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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To the Board of Directors of Fairholme Funds, Inc. and Shareholders of The Fairholme Fund, The Fairholme Focused Income Fund, and The Fairholme Allocation Fund:

### **Opinion on the Financial Statements and Financial Highlights**

We have audited the accompanying statements of assets and liabilities of Fairholme Funds, Inc. (the “Funds”) comprising The Fairholme Fund, The Fairholme Focused Income Fund, and The Fairholme Allocation Fund, including the schedules of investments as of November 30, 2019, the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended, and the related notes. In our opinion, the financial statements and financial highlights present fairly, in all material respects, the financial position of each of the funds constituting Fairholme Funds, Inc. as of November 30, 2019, and the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements and financial highlights are the responsibility of the Funds’ management. Our responsibility is to express an opinion on the Funds’ financial statements and financial highlights based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Funds in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement, whether due to error or fraud. The Funds are not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Funds’ internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included confirmation of securities owned as of November 30, 2019, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts  
January 29, 2020

We have served as the auditor of one or more Fairholme Funds, Inc. investment companies since 2004.

**Board of Directors (unaudited)**

The Board of Directors has overall responsibility for conduct of the Company’s affairs. The day-to-day operations of the Fund are managed by the Manager, subject to the By-Laws of the Company and review by the Company’s Board. The Directors and Officers of the Company, including those Directors who are also officers, are listed below.

Name, Age & Address†	Position(s) Held, Term of Office & Length of Time Served**	Principal Occupation(s) During Past 5 Years§	Number of Portfolios in Fund Complex Overseen by Director	Other Current Directorships Held by Director
<b>Interested Directors and Officers</b>				
Bruce R. Berkowitz* Age 61	Mr. Berkowitz has served as a Director of the Company since December 15, 1999.	Manager, Fairholme Holdings LLC since January 2015 and Chief Investment Officer, Fairholme Capital Management, L.L.C. since October 1997; Managing Member, Fairholme Capital Management, L.L.C. from October 1997 to December 2014.	3	Director and Chairman of the Board of Directors, The St. Joe Co.; Chief Executive Officer, Director and Chairman of the Board of Directors, Fairholme Trust Company, LLC (until September 2019); and Director, Sears Holdings Corporation (until October 2017).
Cesar L. Alvarez, Esq.*†† Age 72	Mr. Alvarez has served as a Director of the Company since May 19, 2008.	Senior Chairman of Greenberg Traurig, LLP since January 1, 2016; Executive Chairman and Co-Chairman from 2010 to 2015; and Chief Executive Officer from 1997 to 2010.	3	Chairman, Board of Directors, Mednax, Inc.; Director, Intrexon Corp.; Director, The St. Joe Co.; Vice Chairman, Board of Directors, Watsco, Inc.; Director, Fairholme Trust Company, LLC (until September 2019); and Director, Sears Holdings Corporation (until May 2017)
Howard S. Frank*†† Age 78	Mr. Frank has served as a Director of the Company since May 7, 2007.	Chairman of the Board of Costa Crociere S.p.A. since 2014; Special Advisor to the CEO and to the Chairman of Carnival Corporation & plc. since 2013; and Special Advisor to the President of Costa Crociere.	3	Director, New World Symphony; and Director, The St. Joe Co.
<b>Independent Directors^</b>				
Terry L. Baxter Age 74	Mr. Baxter has served as a Director of the Company since May 19, 2008.	Chairman of the Board, CEO, Source One (retired); President of White Mountain Holdings (retired).	3	Director, Main Street America Group (until October 2018)
Steven J. Gilbert Age 72	Mr. Gilbert has served as a Director of the Company since June 16, 2014	Chairman, Gilbert Global Equity Partners, L.P. since 1998; Vice Chairman, MidOcean Equity Partners, L.P. since 2005; Co-Chairman, Birch Grove Capital since 2013; Senior Managing Director and Chairman, Sun Group (USA) from 2007 to 2009.	3	Chairman, TRI Pointe Homes, Inc.; Lead Independent Director, Empire State Realty Trust; Director, Oaktree Capital Group; Director, MBIA, Inc.; Director, Florida Food Products, Inc.; Director, Waterpik, Inc. (until 2018); Chairman CPM Holdings, Inc. (until December 2018) and Director, Trade Informatics, Inc. (until March 2016)
Avivith Oppenheim, Esq.†† Age 69	Ms. Oppenheim has served as a Director of the Company since December 15, 1999.	Attorney-at-Law.	3	None.
Leigh Walters, Esq. Age 73	Mr. Walters has served as a Director of the Company since December 15, 1999.	Vice-President and Director, Valcor Engineering Corporation. Attorney-at-Law.	3	Director, Valcor Engineering Corporation

† Unless otherwise indicated, the address of each Director is c/o Fairholme Capital Management, L.L.C., 2601 NE 2nd Avenue, Miami, FL 33137.

^ Independent Directors are not “interested persons” of the Company, as defined in the 1940 Act (“Independent Directors”).

†† Ms. Oppenheim and Messrs. Alvarez and Frank will retire as Directors of the Company effective February 15, 2020.

# FAIRHOLME FUNDS, INC.

ADDITIONAL INFORMATION (continued)  
November 30, 2019

\* Each of Mr. Berkowitz and Mr. Alvarez is an “interested person” of the Company (“Interested Director”), as defined in the 1940 Act, because of his affiliation with the Manager. Mr. Frank is deemed to be an Interested Director because of his material relationship with a Portfolio Company of which a Fund currently has “control,” as defined in the 1940 Act.

\*\* Each Director serves for an indefinite term. Each officer serves for an annual term and until his or her successor is elected and qualified.

§ The information reported includes the principal occupation during the last five years or longer for each Director and other information relating to the professional experiences, attributes and skills relevant to each Director’s qualifications to serve as Director.

## Officers (unaudited)

Name, Age & Address†	Position(s) Held with the Company	Term of Office & Length of Time Served*	Principal Occupation(s) During Past 5 Years
Fernando Font Age 45	Vice President	Mr. Font has served as Vice President of the Company since June 2015.	Chief Administrative Officer of Fairholme Capital Management, L.L.C. since August 2009.
Wayne Kellner Age 50	Treasurer	Mr. Kellner has served as Treasurer of the Company since March 2012.	President, Fairholme Holdings L.L.C. since January 2017; Chief Operating Officer, Fairholme Capital Management, L.L.C. since June 2014; and Chief Financial Officer, Fairholme Capital Management, L.L.C. since January 2012.
Paul R. Thomson†† Age 63	Chief Compliance Officer and Secretary	Mr. Thomson has served as Chief Compliance Officer of the Company since April 2010 and has served as Secretary of the Company since June 2011.	Chief Compliance Officer, Fairholme Capital Management L.L.C. since April 2010; Chief Financial Officer, Fairholme Capital Management L.L.C. from January 2008 to January 2012.

† Unless otherwise indicated, the address of each officer identified above is c/o Fairholme Capital Management, L.L.C., 2601 NE 2nd Avenue, Miami, FL 33137.

\* Each officer serves for an annual term and until his or her successor is elected and qualified.

†† Mr. Thomson will resign as Chief Compliance Officer and Secretary of the Company and Chief Compliance Officer of the Manager effective February 1, 2020.

**Approval of Investment Management Agreement (unaudited)**

At its meeting on October 24, 2019, the Board of Directors (the “Board” or the “Directors”) of Fairholme Funds, Inc. (the “Company”) approved the renewal of each of the investment management agreements (each an “Agreement” and collectively, the “Agreements”) between the Company, on behalf of each of The Fairholme Fund (“The Fairholme Fund”), The Fairholme Focused Income Fund (“The Income Fund”) and The Fairholme Allocation Fund (“The Allocation Fund”) (each a “Fund” and collectively, the “Funds”), and Fairholme Capital Management, L.L.C. (the “Manager”). In determining whether to approve the renewal of the Agreements, the Directors reviewed and considered the factors discussed below, and information made available to them at and in connection with the meeting relating to such factors, and other information the Directors deemed relevant. The Directors did not identify any particular information that was all-important or controlling.

*A. Nature, Extent and Quality of Services*

The Directors considered information provided to them concerning the services performed by the Manager for each Fund pursuant to the respective Agreement. The Directors reviewed information concerning the nature, extent and quality of investment advisory and operational services provided, or overseen, by the Manager. The Directors reviewed information concerning the personnel responsible for the day-to-day portfolio and administrative management of each Fund, the overall reputation of the Manager and the Manager’s current and planned staffing levels. The Directors considered the Manager’s commitment to each Fund as evidenced by, among other things, the current share ownership of each Fund by management/owners/employees of the Manager. The Directors also considered information describing the Manager’s compliance policies and procedures, including its ongoing reviews of and updates to those policies. They also discussed the Manager’s ongoing reviews of policies designed to address each Fund’s compliance with its respective investment objective, policies and restrictions, applicable regulatory requirements and potential conflicts of interest relating to the Manager’s providing services to the Funds and other advisory clients.

The Directors determined that it would not be appropriate to compare services provided by the Manager to each Fund with the services provided by the Manager to its other advisory accounts because such accounts are not subject to the same regulatory requirements as the Funds, may have different investment restrictions, holdings and goals than the Funds and require different levels of client and back-office servicing than the Funds.

The Directors concluded that the nature, extent and quality of services provided by the Manager to each Fund were appropriate and sufficient to support renewal of the Agreements.

*B. Investment Performance*

The Directors considered information regarding each Fund’s performance and the Manager’s views on performance. The Directors also considered, with respect to each Fund, the holdings of the Fund that contributed negatively and positively to its performance, and the Manager’s views of the investment rationale and outlook for the Fund’s portfolio. They also discussed the Manager’s long-term, focused investment approach, noting that such an approach exhibits the entrepreneurial nature of the Manager’s efforts and associated rewards.

*The Fairholme Fund*

The Directors considered information about the short- and long-term investment performance of The Fairholme Fund, including information comparing The Fairholme Fund’s cumulative and annualized performance with the comparable performance of the S&P 500 Index, its benchmark, for the 1-year, 3-year, 5-year, 10-year and since-inception periods ended August 31, 2019. The Directors also reviewed and considered a third-party report (the “third party report”) from Lipper/Broadridge (“Lipper”) comparing The Fairholme Fund’s annualized performance with the annualized performance of its Lipper peer group for the 1-year, 3-year, 5-year, 10-year and since inception periods ended August 31, 2019. They noted that the Fairholme Fund’s annualized performance for the 1-year ended August 31, 2019 exceeded, (a) both the average and median annualized performance of its Lipper peer group, and (b) the performance of the S&P 500 Index. However, the Fairholme Fund’s annualized performance

for the 3-year, 5-year and 10-year periods ended August 31, 2019 lagged (a) both the average and median annualized performance of its Lipper peer group, and (b) the performance of the S&P 500 Index. The Fairholme Fund's annualized performance since inception through August 31, 2019 exceeded both the average performance of its Lipper peer group and the S&P 500 Index, but lagged the median performance of its Lipper peer group for that period.

#### *The Income Fund*

The Directors considered information about the short- and long-term investment performance of The Income Fund, including information comparing The Income Fund's performance to that of the Bloomberg Barclays U.S. Aggregate Bond Index (the "Bloomberg Barclays Bond Index"), its benchmark, for the 1-year, 3-year, 5-year and since inception periods ended August 31, 2019. The Directors also reviewed information reflecting The Income Fund's performance relative to its Lipper peer group's average and median annualized performance for the same periods. The Directors noted the Income Fund's annualized performance exceeded both (a) the average annualized performance of its Lipper peer group, and (b) the performance of the Bloomberg Barclays U.S. Aggregate Bond Index for the 3-year, 5-year and since inception periods ended August 31, 2019. In the same periods the Income Fund's annualized performance exceeded the median of its Lipper peer group for the 3-year period ended August 31, 2019, lagged the median for the 5-year period, and equaled the median for the period since inception. The Income Fund's annualized performance for the 1-year period ended August 31, 2019 lagged both (a) the average and median annualized performance of its Lipper peer group, and (b) the performance of the Bloomberg Barclays U.S. Aggregate Bond Index.

#### *The Allocation Fund*

The Directors considered information about the short- and long-term investment performance of The Allocation Fund, including information reflecting the performance of The Allocation Fund relative to the annualized performance of both the Bloomberg Barclays Bond Index and the S&P 500 Index for the 1-year, 3-year, 5-year and since inception periods ended August 31, 2019. The Directors also reviewed information reflecting The Allocation Fund's performance relative to the average and median annualized performance of its Lipper peer group for the same periods. The Directors noted the Allocation Fund's annualized performance for the 3-year, 5-year, and since inception periods ended August 31, 2019 lagged both (a) the average and median annualized performance of its Lipper peer group, and (b) the S&P 500 Index and Bloomberg Barclays U.S. Aggregate Bond Index. It was also noted that the Allocation Fund's annualized performance for the 1-year ended August 31, 2019 exceeded both (a) the average and median annualized performance of its Lipper peer group, and (b) the S&P 500 Index, however it lagged the performance of the Bloomberg Barclays U.S. Aggregate Bond Index in that same period.

As to each Fund, the Directors considered information provided to them concerning the performance of the Fund in light of market events and industry trends that have continued throughout the last year, the Manager's views on the availability of investment opportunities, and other factors affecting the Fund's performance. The Directors also considered information about developments affecting specific issuers of assets held in the Fund portfolios, as well as information about each Fund's total returns. In considering the performance of the Funds, the Board acknowledged the long-term, focused value-investing strategy employed by the Manager in managing the Funds.

#### *C. Management Fees and Expense Ratios*

The Directors considered information about each Fund's management fees and expense ratios, including information in the third party report comparing each Fund's management fee and most recent total expense ratio to the management/advisory fees and expense ratios of the Fund's Lipper peer group.

In evaluating the management fee and expense ratio information, the Directors took into account the demands and complexity of portfolio management for each Fund in light of its investment objective, strategies, current holdings and asset size. The Directors also considered information regarding the Manager's payment (in some cases from its resources) of certain expenses for the benefit of each Fund, including shareholder account-level expenses associated with certain omnibus accounts. The Directors also reviewed information concerning the fees paid to the Manager by its other advisory accounts.



The Directors also considered the Manager's voluntary undertaking to waive a portion of the investment management fee payable to the Manager by each Fund pursuant to the Fund's Agreement, and discussed the terms of that undertaking. The Directors concluded that each Fund's management fee and overall expense ratio were reasonable in light of the services provided by or through the Manager.

*D. Profitability*

The Directors considered information regarding the estimated profitability of each Fund to the Manager. They considered such profitability in light of each Fund's assets under management, overall expense ratio and performance, as well as the effect of the Manager's voluntary fee waiver currently in place and the services provided by or through the Manager. The Directors concluded that the Manager's estimated profitability was not such as to prevent the Directors from approving the renewal of each Agreement.

*E. Economies of Scale*

The Directors considered information concerning economies of scale for each Fund, including the current assets of each Fund. The Directors concluded that, for each Fund, no modification to the Fund's existing arrangements was warranted based on economies of scale.

The Directors, including a majority of the Directors who are not parties to any of the Agreements or interested persons of any such party, concluded, based on their consideration of the foregoing and their evaluation of all of the information they reviewed, that the renewal of the Agreements was in the best interest of the Funds and their shareholders. The Directors noted that their decision was based on an evaluation of the totality of factors and information presented or available to them, and not on any one factor, report, representation or response.

**Proxy Voting Policies, Procedures and Records (unaudited)**

The Company has adopted policies and procedures that provide guidance and set forth parameters for the voting of proxies relating to securities held in each Fund's portfolio. A description of these policies and procedures, and records of how each Fund voted proxies relating to its portfolio securities during the most recent twelve month period ended June 30, 2019, are available to you upon request and free of charge by writing to the Fairholme Funds, Inc., c/o BNY Mellon Investment Servicing (US) Inc., P.O. Box 9692, Providence, RI, 02940 or by calling Shareholder Services at (866) 202-2263. They may also be obtained by visiting the SEC website at [www.sec.gov](http://www.sec.gov). The Company shall respond to all shareholder requests for records within three business days of its receipt of such request by first-class mail or other means designed to ensure prompt delivery.

**Quarterly Filing (unaudited)**

The Company files a complete schedule of the Funds' portfolio holdings on Form N-PORT for the fiscal quarters ending February 28 (February 29 during leap year) and August 31. The Forms N-PORT are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Shareholder Tax Information (unaudited)**

The Fairholme Fund, The Income Fund, and The Allocation Fund reported \$22,053,111, \$5,286,649, and \$791,785 of total distributions paid during the fiscal year ended November 30, 2019.

The information below is reported for the Funds' fiscal year and not calendar year. Therefore, shareholders should refer to their Form 1099-DIV or other tax information which will be mailed in 2020 to determine the calendar year amounts to be included on their 2019 tax returns. Shareholders should consult their own tax advisors.

Please note that, for the fiscal year ended November 30, 2019, the respective percentages of ordinary income distributions paid by each Fund were reported as follows:

<u>Distribution Period November 30, 2019</u>	<u>The Fairholme Fund</u>	<u>The Income Fund</u>	<u>The Allocation Fund</u>
Qualified Dividend Income for Individuals	7.08%	22.74%	42.71%
Dividends Qualifying for the Dividends Received Deduction for Corporations	7.53%	22.73%	43.26%
Qualifying Interest Income	39.33%	54.19%	78.70%
U.S. Treasury Securities	2.64%	4.43%	5.63%

\* The law varies in each state as to whether and what percentage of dividend income attributable to U.S. Treasury securities is exempt from state and local income tax. It is recommended that you consult your tax advisor to determine if any portion of the dividends you received is exempt from income taxes.

All information reported is based on financial information available as of the date of this annual report and, accordingly, are subject to change. For each item, it is the intention of the Fund to report the maximum amount permitted under the Internal Revenue Code and the regulations thereunder.



# FAIRHOLME FUNDS

## Officers of Fairholme Funds, Inc.

BRUCE R. BERKOWITZ  
*President*

FERNANDO M. FONT  
*Vice President*

WAYNE KELLNER  
*Treasurer*

PAUL R. THOMSON  
*Chief Compliance Officer & Secretary*

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## Board of Directors of Fairholme Funds, Inc.

CESAR L. ALVAREZ, *Esq.*

TERRY L. BAXTER

BRUCE R. BERKOWITZ

HOWARD S. FRANK

STEVEN J. GILBERT, *Esq.*

AVIVITH OPPENHEIM, *Esq.*

LEIGH WALTERS, *Esq.*

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## Investment Manager

FAIRHOLME CAPITAL MANAGEMENT, L.L.C.  
*2601 NE 2<sup>nd</sup> Avenue, Miami, FL 33137*

## Transfer Agent

BNY MELLON INVESTMENT SERVICING (US) INC.  
*760 Moore Road, King of Prussia, PA 19406*

## Fund Accountant & Administrator

THE BANK OF NEW YORK MELLON  
*760 Moore Road, King of Prussia, PA 19406*

## Custodian

THE BANK OF NEW YORK MELLON  
*240 Greenwich Street, New York, NY 10286*

## Independent Registered Public Accounting Firm

DELOITTE & TOUCHE LLP  
*200 Berkeley Street, Boston, MA 02116*

## Legal Counsel

SEWARD & KISSEL LLP  
*901 K Street NW, Washington, DC 20001*

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